

Deaf and Disabled Telecommunications Program:

*Insufficient Monitoring of Surcharge
Revenues Combined With Imprudent Use
of Public Funds Leave Less Money Available
for Program Services*



July 2002
2001-123

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July 11, 2002

2001-123

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Deaf and Disabled Telecommunications Program's (DDTP) accounting for surcharge revenues and expenditures.

This report concludes that neither the DDTP nor the California Public Utilities Commission (CPUC) are fulfilling their responsibilities to ensure that telephone companies (carriers) are collecting and remitting required surcharges on intrastate telecommunication charges. Specifically, the DDTP does not adequately review or record the payments it receives and does not notify carriers who are late in remitting. Also, the CPUC does not always demonstrate consistent oversight over the revenue functions performed by the DDTP and does not enforce interest payment penalties for carriers who remit late. As a result, the DDTP is likely not receiving all of the money it is owed.

Finally, the DDTP does not always further the mission of the program when expending public funds. Also, the salaries and benefits of DDTP employees appear generous when compared with state employees in similar positions. Although DDTP employees are not employees of the State, the DDTP is a publicly funded entity. These practices potentially leave less money available for program services.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

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SUMMARY

Audit Highlights . . .

Our review of the Deaf and Disabled Telecommunications Program (DDTP) concludes that:

- Neither the DDTP nor the California Public Utilities Commission (CPUC) is fulfilling its responsibilities to ensure that telephone companies (carriers) are remitting required surcharges, possibly resulting in hundreds of thousands of dollars going uncollected.*
- Only about 32 percent of certified carriers remitted surcharge payments over the last two years.*
- Some of the DDTP's expenditures are for unreasonable or unnecessary items.*
- The salaries of select DDTP employees average 24 percent higher than those of comparable state positions.*
- Most DDTP contracts we reviewed comply with the Public Contract Code and contain adequate standards for contractors to adhere to.*

RESULTS IN BRIEF

The Deaf and Disabled Telecommunications Program (DDTP)—a quasi-governmental entity subject to the oversight of the California Public Utilities Commission (CPUC)—is responsible for providing telecommunications services to the deaf and disabled communities of California. Specifically, the DDTP fulfills its legislative mandate by providing specialized telecommunications equipment to certified deaf, hearing impaired, and disabled individuals. In addition, the DDTP administers the California Relay Service, connecting individuals who are deaf or hearing impaired with those who have normal hearing through the use of trained operators who relay the conversation. The DDTP is financed through a surcharge that appears on all consumers' telephone bills. This surcharge applies to most calls made within the State. After telecommunications companies (carriers) collect money from the customer, they are required to remit the funds to the Deaf Equipment Acquisition Fund Trust (DEAF Trust) through the fund's trustee, the Bank of America.

Neither the DDTP nor the CPUC is fulfilling its responsibilities to ensure that carriers are collecting and remitting required surcharges on intrastate telecommunications charges, possibly resulting in hundreds of thousands of dollars going uncollected. For example, neither the DDTP nor the CPUC knows which of the almost 1,500 carriers certified by the CPUC to operate in California are providing services subject to surcharge. Roughly 32 percent of the certified carriers have submitted the payments over the last two years. In addition, the DDTP does not maintain accurate records of carrier payments, making it difficult to identify delinquent carriers. Further, these carriers frequently remit surcharges past their due date and usually do not pay appropriate late-payment penalties. The DDTP does not report late payments to the CPUC, which can assess penalties and revoke carriers' certifications. In addition, carriers often do not submit payments as frequently as required and do not always consistently apply the surcharge rate to the various types of intrastate service charges. This could be due to unclear instructions from the CPUC. The lack of proper monitoring and

oversight also create the potential for many errors and can mean the DDTP is not receiving all it is owed, hampering its ability to carry out its mission.

Moreover, the DDTP does not always further its mission when expending public funds. In part, this is because the DDTP does not always ensure that the public funds it spends are for reasonable or necessary items. For example, it previously did not have adequately defined policies and procedures for credit card use, resulting in frivolous expenditures on flowers and other items of a personal nature. In addition, it has expended funds on items typically not allowed in state service, such as employees' moving expenses and rent. The DDTP implemented new policies on nonallowable expenses after we brought many of these imprudent expenditures to its attention. In addition, its employees have repaid many of these expenditures.

Furthermore, salaries and benefits of some DDTP employees appear very generous when compared with those of similar state employees. Although DDTP employees are not state employees, the DDTP is a publicly funded entity. Thus, we used state civil service employees as a benchmark in our comparison. In fact, our salary comparison of 12 DDTP employees shows that the maximum step of the salary ranges of these employees averages 24 percent higher than those of comparable state positions, with one salary as high as 48 percent above a similar classification in state service.

The DDTP also gives many of its employees fringe benefits, including paid parking and use of leased vehicles. In the past, the DDTP has failed to report these taxable benefits to the proper taxation authorities. After we brought our concerns to the DDTP's attention, it made efforts to report parking benefits, although we believe it can strengthen its internal controls to prevent the personal use of leased vehicles.

Finally, most DDTP contracts that we reviewed comply with the Public Contract Code and contain adequate benchmarks and standards for contractors. However, some of its contracts contain no performance measures or provisions for the collection of monetary penalties should a contractor fail to comply. Although the DDTP is beginning to implement performance requirements for some of these contracts, the initial lack of provisions to collect penalties may have cost the DDTP thousands of dollars in noncompliance fees, or monetary damages it would have been entitled to if the contractor failed to meet established standards.

RECOMMENDATIONS

The administration of the DDTP is being reconfigured. It has not yet been determined who will be responsible for the day-to-day provision of program services, so we are making several recommendations. Because the DDTP's current structure will remain intact for another year, we recommend that it take the following actions to better track carrier remittance practices and payments and to ensure that the DEAF Trust is receiving all the money it is owed:

- Work with the CPUC to develop and maintain a reliable record of active carriers that are providing services subject to the surcharge.
- Track the payment history of each carrier and monitor these records to identify delinquent carriers.
- Regularly notify delinquent carriers and the CPUC of all past-due amounts.

The CPUC ultimately will be responsible for ensuring that it collects all surcharges. To ensure that it does so, the CPUC will have to do the following:

- Develop and maintain a reliable record of active carriers that are providing services subject to the surcharge.
- Rewrite its transmittal instructions in explicit detail, ensuring consistency among carriers.
- Enforce late-payment penalties.
- Conduct periodic audits of DDTP surcharge remittances.

To ensure the prudent use of public funds in furtherance of the program's mission, the DDTP should:

- Adhere to its newly revised internal control procedures that define allowable expenses.
- Obtain the CPUC's approval for employee salaries.
- Develop additional procedures to prevent the potential for personal car use among employees with DDTP-leased vehicles.

Finally, whether or not the CPUC contracts out for all or some of the day-to-day provision of program services, to ensure that program funds are spent prudently and in accordance with its mission, the CPUC should do the following:

- Include specific provisions in its contracts that require contractors to comply with state laws, regulations, and policies related to reimbursable expenses.
- Include specific performance standards in its contracts and monitor whether the contractors are meeting those standards.
- Include provisions in its contracts that will allow it to collect damages from nonperforming contractors.

AGENCY COMMENTS

The CPUC and the DDTP agree with our recommendations. However, the DDTP disagreed with how we characterized some of its imprudent expenditures. In addition, the DDTP took exception to our comparison of the salaries and benefits of DDTP employees with comparable state positions. However, it outlined what it will do or has done to implement each of our recommendations. Finally, the CPUC plans to adopt all of our recommendations and detailed how it would implement each one. ■

INTRODUCTION

BACKGROUND

In 1979, legislation was enacted requiring the California Public Utilities Commission (CPUC) to design and implement a program providing telecommunications equipment to individuals who are deaf or hearing impaired. This program—now known as the Deaf and Disabled Telecommunications Program (DDTP)—currently fulfills three mandated functions, each arising from a separate piece of legislation. These three pieces of legislation have been incorporated into Section 2881 of the Public Utilities Code, but the functions continue to be identified and distinguished by their bill number, summarized below.

Senate Bill 597

Senate Bill 597 (SB 597), enacted as Chapter 1142, Statutes of 1979, provides for the distribution of telecommunication devices for the deaf (TDDs) to certified deaf telephone subscribers at no cost. Additional legislation extended the provision of TDDs to any school or organization representing deaf or severely hearing-impaired individuals, as well as to any state agency having significant contact with the public. The essential piece of equipment provided through SB 597 is the text teletype machine (TTY)—a device with keyboard and visual display, allowing written telecommunication between parties. Other equipment distributed under this bill may include telephones with large visual displays or signal devices.

Senate Bill 244

Senate Bill 244, enacted as Chapter 741, Statutes of 1983, mandated the development of a dual-party relay system to connect individuals who are deaf or hearing impaired with individuals who have normal hearing. The resulting California Relay Service (relay service) provides TTY users 24-hour contact with any other telephone subscriber in the State. Trained operators are available to relay conversation between people who type or read their telephone communications using a TTY and people who use the common telephone handset to hear and speak. In such a call, the operator types or reads aloud what the other party is communicating.

AT&T Communications of California (AT&T), California's first relay provider, began operations on January 1, 1987. Currently, MCI WorldCom Communications, Inc. is the primary relay provider, handling approximately 70 percent of all relay service calls, with Sprint Communications Company, L.P., serving as secondary provider, handling the remaining 30 percent. The DDTP—the entity that administers the program¹—reports that callers made almost 7 million calls through the relay service in 2001. The relay service also provides a service known as Speech-to-Speech (STS), providing trained operators who speak for users with speech disabilities or who otherwise have trouble being understood on the telephone. This service was added on a trial basis starting in 1996 and became permanent in 1999. The DDTP reports that callers made almost 67,000 STS calls through the relay service in 2001.

Senate Bill 60

Because of Senate Bill 60 (SB 60), enacted as Chapter 585, Statutes of 1985, other certified individuals with hearing, vision, mobility, speech, and other cognitive disabilities receive specialized telephone equipment. Some examples of the equipment distributed under this bill include speaker and remote control telephones, automatic dialers, big-button phones, telephone headsets, and call alert signalers. According to the DDTP, more than 494,000 pieces of equipment provided under SB 597 and SB 60 are currently in service.

CALIFORNIA PUBLIC UTILITIES COMMISSION

The CPUC regulates privately owned “public utilities,” such as gas, electric, telephone, and railroad corporations. For example, it is responsible for certifying telephone companies (carriers) that apply to provide telecommunications services in California. The CPUC's primary objective is to ensure adequate facilities and services for the public at reasonable rates by establishing service standards and safety rules and authorizing utility rate changes.

In 1989, the CPUC formally established the DDTP to oversee the provision of the services mandated by the three Senate bills. Previously, the Deaf Equipment Acquisition Fund Trust (DEAF Trust) Administrative Committee—established by the CPUC in

¹ Throughout this report, we use “program” when referring to the mandated functions and services and “DDTP” when referring to the entity that administers and carries out these functions and services.

The Seven Universal Service Programs Overseen by the CPUC

Universal Lifeline Telephone Service: Subsidizes basic telephone service for low-income persons.

California High Cost Fund A: Subsidizes basic telephone service provided by 17 small local telephone companies servicing high-cost, predominantly rural areas in the State.

California High Cost Fund B: Subsidizes basic service in high-cost areas of the service territories of four large local telephone companies, including Pacific Bell, Verizon California Inc., Roseville Telephone Company, and Citizens Telecommunications of California.

California Teleconnect Fund: Subsidizes telephone service for various entities, including schools, libraries, community-based organizations, and city- and county-owned hospitals and clinics.

Deaf and Disabled Telecommunications Program: Provides telecommunications equipment and services to individuals who are certified deaf, hearing impaired, or otherwise disabled.

Telecommunications Devices for the Deaf Placement Interim Committee Program: Provides for publicly available telecommunications devices capable of servicing the needs of the deaf or hearing impaired in existing buildings, structures, facilities, and public accommodations.

Public Policy Payphone Program: Provides public pay phones at locations where there would otherwise not be one and where having one is in the interest of public health, safety, and welfare.

1981—oversaw the services. The program is one of seven universal service programs that the CPUC administers, seeking to expand access to basic telephone services.

The CPUC finances six of these programs, including the DDTP, through surcharges on all telephone customers' monthly bills. The Public Policy Payphone Program (pay phone program) is financed by a portion of the monthly surcharge applied to all pay phone access lines in the State. The surcharge that finances the DDTP usually appears on consumer phone bills as "CA Relay Service and Communications Devices Fund" or something similar, and is currently 0.48 percent of most intrastate billings.

Certified carriers are required to remit the revenue they receive from the DDTP surcharge into the DEAF Trust, with Bank of America

serving as trustee. The CPUC's transmittal instructions mandate the reporting and remitting of surcharges using a form known as the Combined California Public Utility Commission Telephone Surcharge Transmittal form (transmittal). All carriers are required to use transmittals to report the revenue collected for six of the seven universal service programs, even if the amount is zero. Pay phone program surcharges are reported separately.

From January 1, 2001, through August 31, 2001, the surcharge for the DDTP was zero. This is because the statute for the program was not amended in 2000, and the surcharge expired. However, legislative authorization for the surcharge was restored, as was a surcharge rate of 0.48 percent, as of September 1, 2001. As shown in Table 1 on the following page, the combined surcharges for the six universal service programs paid through consumers' monthly bills amount to 4 percent of certain billed services, supporting more than \$1 billion in expenditures for these programs.

TABLE 1**Surcharge Rates for the Seven Universal Service Programs Overseen by the CPUC**

Universal Service Program	Surcharge Rate (as of May 2002)	Program Budget for Fiscal Year 2002–03
Universal Lifeline Telephone Service Program	1.45%	\$ 284,447,000
California High Cost Fund A	0.30	53,077,950
California High Cost Fund B	1.47	535,018,000
California Teleconnect Fund	0.30	159,349,000
Deaf and Disabled Telecommunications Program	0.48	49,714,600*
Telecommunications Devices for the Deaf Placement Interim Committee Program (TPIC)	0.0†	310,667
Public Policy Payphone Program	‡	151,667
Totals	4.0%	\$1,082,068,884

Source: Various California Public Utilities Commission resolutions.

* This is the approved budget amount for calendar year 2001.

† As of December 1, 2001, the TPIC surcharge was reduced from 0.1 percent to zero.

‡ This program is funded by a portion of the monthly surcharge applied on all pay phone access lines in the State. Although the surcharge rate in the past was 8 cents per pay telephone line per month, it is currently zero.

The Telecommunications Division (division) within the CPUC acts as the liaison between the DDTP and the CPUC. The division reviews DDTP-recommended appointments to the three working committees that guide the DDTP's activities and makes recommendations to the CPUC's executive director. The CPUC's executive director approves or denies these recommendations. The division also reviews and makes recommendations concerning CPUC approval of the annual budget for the DDTP. In addition, the division reviews large contracts entered into by the DDTP for telecommunications services. The CPUC's legal division also advises the DDTP on legal matters as needed. Finally, the CPUC's executive director designates one person to serve on the DDTP's administrative committee, as his or her representative.

PROGRAM ADMINISTRATION

From the inception of the program in 1981 until the late 1990s, various local telephone companies provided the bulk of the mandated services on its behalf, including equipment procurement and distribution, and outreach. However, in 1998, in response to deregulation of the telephone industry, the CPUC directed the DDTP to take over operational responsibility for essential program services from the telephone companies. The aim was to streamline all functions, to cut costs, and to focus on ensuring that the program reached all eligible consumers. This transition was completed in 2000, with the DDTP administering contracts for a centralized call center and a central equipment distribution center.

The DDTP is a quasi-governmental entity, subject to CPUC oversight. In addition, as discussed later, DDTP employees are not State of California employees. As of June 1, 2002, the DDTP employed 58 individuals, and its 2001 approved budget was \$49.7 million.

The DDTP directs all services mandated by Senate Bills 597, 244, and 60 on behalf of the CPUC. This responsibility includes administering the distribution of equipment as required by Senate Bills 597 and 60—currently referred to as the California Telephone Access Program—as well as the relay service. Its functions include strategic planning, administration, and financial management. Other DDTP responsibilities include obtaining equipment, managing telecommunications contracts, handling public relations and consumer outreach, and reporting. Three committees, each of which focuses on specific activities, guide it.

Deaf and Disabled Telecommunications Program Administrative Committee

The Deaf and Disabled Telecommunications Program Administrative Committee (administrative committee) is the DDTP's lead committee. It recommends policies to the CPUC, including the DDTP's annual budget, and approves expenditures. Its deliberations guide the DDTP's strategic planning. It approves contracts with vendors and reviews vendor performance. Other responsibilities of this committee include:

- Recommending surcharge rate changes to the CPUC.
- Determining an investment policy for the assets of the DEAF Trust.

- Overseeing the activities of its advisory committees.
- Ensuring that the financial statements are audited annually.

The administrative committee—composed of up to 12 representatives appointed by the executive director of the CPUC—meets once a month and on an as-needed basis beyond that. Voting members include seven representatives from consumer groups representing the hard-of-hearing, deaf, and disabled communities. The five nonvoting members represent carriers and other telecommunication vendors (3), the primary relay service provider (1), and the CPUC (1).

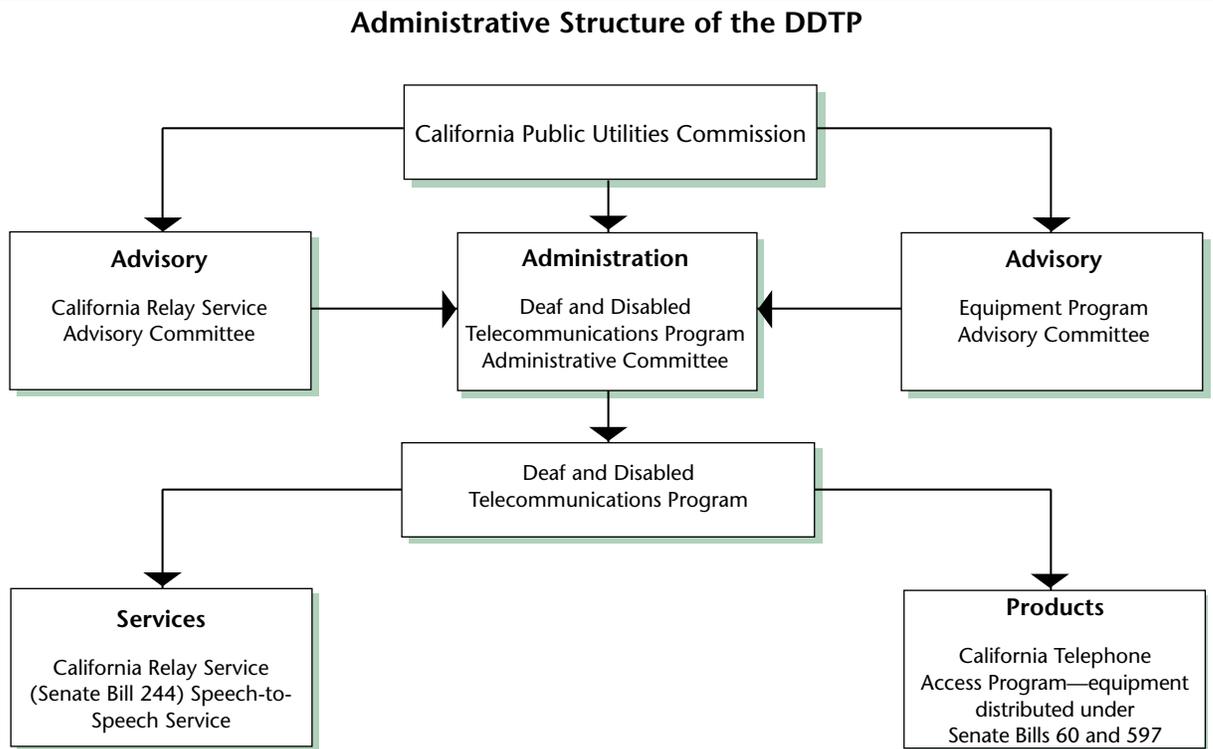
California Relay Service Advisory Committee

The California Relay Service Advisory Committee advises the administrative committee on all matters pertaining to the quality of the relay service, including policy, programs, procedures, financial aspects, and public awareness. It is composed of up to 11 representatives appointed by the CPUC's executive director. Voting members include six representatives from consumer groups. The five nonvoting members represent carriers and other telecommunication vendors (3), the primary relay service provider (1), and the CPUC (1).

Equipment Program Advisory Committee

The Equipment Program Advisory Committee advises the administrative committee on equipment technology, new products, equipment distribution, service quality, and policies. It is composed of up to 10 representatives appointed by the executive director of the CPUC. Voting members include five representatives from consumer groups. The remaining five nonvoting members represent carriers and other telecommunication vendors (3), the primary relay service provider (1), and the CPUC (1). Figure 1 illustrates the relationships among the CPUC, the DDTP, its various committees, and the services and products it provides.

FIGURE 1



Source: DDTP 2000 Annual Report.

SERVICES PROVIDED TO THE PUBLIC

Individuals are eligible for program equipment and services if they (1) reside in California, (2) have access to phone service at their residence, and (3) have a certified disability. All disabilities must be certified by a physician or authorized agent. The centralized call center in Stockton—which operates under a contract with the DDTP—is the single point of contact for consumers who want to learn about the equipment available. Call center employees are available to answer questions, provide information, and initiate orders for equipment.

Consumers also may visit one of five walk-in service centers, currently in Sacramento, Riverside, Fresno, Santa Ana, and San Diego, with a service center in Oakland scheduled to open in August 2002. Service centers offer consumers a place to learn about the specialized telephone equipment and receive

training in how to use it. Consumers also can return equipment needing repair to a service center. In addition, people who need assistance in installing and learning to use specialized telephone equipment in their residences can be helped by a DDTP field advisor, of which there are 12 statewide. If needed, field advisors also help consumers select equipment and provide training to ensure that consumers can communicate by telephone as independently as possible. According to the DDTP, each field advisor typically helps as many as 25 individuals or families per week.

When an order is placed, the centralized equipment distribution center in San Jose—also under contract to the DDTP—delivers the telephone equipment. The distribution center maintains the majority of the DDTP's equipment inventory. In addition, the DDTP currently employs 10 outreach specialists, stationed throughout the State, who inform the public about the program through presentations, exhibits, conventions, support group meetings, and other events. The DDTP's state headquarters, located in Oakland, houses additional staff that perform management, accounting, human resources, and other administrative functions.

TRANSFER OF THE DEAF TRUST FUND TO THE STATE TREASURY

As we described earlier, the CPUC administers several universal service programs, including the DDTP, most of which are funded by a surcharge on monthly telephone bills. Before SB 669, enacted as Chapter 677, Statutes of 1999, surcharge revenues were remitted to and maintained in trust funds or checking accounts within commercial banks, such as Bank of America and Union Bank. However, this law required that the funds collected for these programs, including the DDTP, become a part of the State Treasury. By transferring the funds to the State Treasury, the new law entrusts the funds to the State's budgeting process.

When these funds became subject to the State's budget process, the CPUC assumed responsibility for maintaining accounting records, receiving surcharge remittances, and depositing them in the State Treasury. In essence, the CPUC collects the surcharge revenues and transfers them to the State Controller for deposit in the designated universal service program funds created under

this law. These functions, because they have a clear match with state civil service classifications, are now performed by CPUC employees. This is true for all programs except the DDTP.

The CPUC has not yet implemented this law with respect to the DDTP because the transition has proved to be more complex than with the other programs. According to the CPUC, a significant number of the DDTP's employees—primarily field advisors, customer advisors, and outreach specialists—are deaf or disabled or possess specialized skills, knowledge, or experience needed to deliver services to the deaf and disabled community. These attributes are not among the CPUC's current civil service classifications. Moreover, because the DDTP is a quasi-governmental entity, subject to CPUC oversight, and not a separate legal entity, it is not under contract with the CPUC. According to the CPUC, the State Controller may not pay employees of an entity that is not a state agency unless those employees are working for an organization under contract to a state agency—in this case, the CPUC. Once the surcharge revenues become a part of the State Treasury, the DDTP's employees cannot legally be paid, essentially resulting in the DDTP ceasing to exist. If this were the case, disruption of program services would likely result.

The CPUC submitted a transition plan to the Legislature in May 2001 describing three possible options for administering and operating the program in compliance with this law. These options were to (1) have DDTP staff functions transferred to civil servants assigned to the CPUC, (2) seek appropriate authority to enter into a formal contract with the administrative committee for the provision of services, and (3) seek authority to transfer the program to another state agency such as the Department of Developmental Services. In the fall of 2001, the CPUC informed the administrative committee that the CPUC's president would support the second option. The CPUC, in conjunction with the Legislature, developed emergency legislation that would extend the deadline for transfer. The governor recently signed this bill, Assembly Bill 1734, Chapter 61, Statutes of 2002, extending the deadline to July 1, 2003, for funds in the DEAF Trust to revert to the newly created Deaf and Disabled Telecommunications Program Administrative Committee Fund within the State Treasury. In addition, the new law authorizes the CPUC to enter into contracts for the provision of program services.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) requested the Bureau of State Audits to conduct an audit of the DDTP. Specifically, the audit committee requested an examination of the CPUC's and DDTP's accounting controls to determine whether they are sufficient to ensure the proper accounting of program revenues and expenditures. We also were asked to assess the DDTP's procedures for ensuring that its contracting practices comply with the Public Contract Code and its methods for ensuring that the scope of its contracted work is sufficient, meets the needs of its customers, and is cost-effective. Finally, there were concerns that decisions regarding the program were being made in "closed door" sessions without public review and that there may be a conflict of interest between a high-level DDTP employee and Sprint.

To determine whether the DDTP is adhering to necessary accounting policies and procedures and furthering the mission of the program when expending public funds, we performed a variety of expenditure testing. For example, we reviewed 36 payments to individuals and companies to determine whether they were made for legitimate purposes in furtherance of the program's mission.

In addition, we tested a sample of travel expense claims to determine whether DDTP employees were keeping within prescribed limits. We also tested a sample of credit card invoices to identify potential imprudent expenditures, or those not furthering the mission of the program. In further testing of the validity of expenditures, we performed a two-year reconciliation of the DDTP's checking account and analyzed the makeup of expenditures, notably the percentage of administrative costs. Our reconciliation uncovered no problems.

To determine whether the DDTP and the CPUC are fulfilling their responsibilities regarding the collection of surcharge revenue, we evaluated the responsibilities of each entity. We did this by interviewing appropriate staff, studying laws and regulations, and reviewing applicable internal control policies and procedures. We then examined the sufficiency of the requirements and analyzed the extent to which each entity is fulfilling its responsibilities. To identify the frequency with which telephone companies submit the required surcharge, we

acquired the Surcharge Transaction History report for 2000 and 2001. We manipulated this report in various ways to distinguish between large and small carriers, to identify carriers that were delinquent, and to analyze the effect of missed payments. In addition, we reviewed more than 100 surcharge transmittal forms, selected some late payments, and analyzed the potential effects of missed interest penalties.

To evaluate the sufficiency of the CPUC's instructions to carriers regarding the submitting of surcharge revenues, we interviewed staff and studied laws and regulations to gain a firm understanding of what the CPUC requires. We then asked selected telephone companies how they understood and interpreted the requirements. We also reviewed a sample of telephone bills paid by our own staff to evaluate how different carriers apply the surcharge and how consistently the companies apply the surcharge.

To gain an understanding of the contracting practices that the DDTP is required to follow, we studied the Public Contract Code and State Contracting Manual. We then selected a sample of large DDTP contracts to evaluate whether its contracting practices comply with applicable state laws and guidelines. To determine whether the DDTP is enforcing the terms of its contracts with vendors, we identified provisions in our sample of contracts to which the collection of monetary penalties may apply and determined whether the DDTP had collected all the monetary penalties it was owed. To evaluate whether the DDTP's contracts are meeting the needs of its customers sufficiently, we reviewed our sample of contracts to determine whether appropriate benchmarks and performance standards were required of vendors. We then evaluated the reasonableness of these standards and examined whether the DDTP is enforcing compliance with these standards.

Because DDTP employees are not state employees but are paid with public funds, we decided to evaluate the compensation packages of certain DDTP employees and assess their reasonableness as compared with compensation paid to equivalent State of California employees. To evaluate the reasonableness of salaries, benefits, and other forms of compensation, we examined the DDTP's employee handbook, salary ranges, and payroll history reports. We then compared job descriptions and salaries of DDTP staff with those of comparable state

civil service positions. We also assessed the reasonableness of employees' retirement benefits. In addition, we tested the DDTP's payments for its fleet of leased vehicles to ensure that all cars are accounted for properly. We also tested the reasonableness of the mileage use of the leased vehicles. Finally, we determined the extent to which the DDTP is reporting taxable fringe benefits, such as parking and personal use of the leased vehicles.

To determine whether decisions regarding the program were being made in "closed door" sessions without public review, we read and evaluated the Bagley-Keene Open Meeting Act (Bagley-Keene Act), identifying applicable provisions. Next, we reviewed all meeting minutes—both open and closed door—that took place during the contract negotiations for the relay service, involving MCI WorldCom and Sprint. We then evaluated whether provisions of the law were adhered to strictly. We determined that the DDTP did an adequate job of documenting all its meetings and of complying with the Bagley-Keene Act.

Finally, to ascertain whether a conflict of interest existed between a DDTP employee and Sprint, we interviewed appropriate staff at the DDTP and CPUC and reviewed documents related to the contract negotiations. We concluded that no such conflict existed. ■

CHAPTER 1

Insufficient Monitoring of Surcharge Remittances May Have Resulted in Large Amounts of Uncollected Revenue

CHAPTER SUMMARY

Neither the Deaf and Disabled Telecommunications Program (DDTP)² nor the California Public Utilities Commission (CPUC) is fulfilling its responsibilities to ensure that telecommunications companies (carriers) are collecting and remitting required surcharges on intrastate telecommunications charges, possibly resulting in large sums of revenue going uncollected. These surcharges pay for vital services mandated under the program, such as providing much-needed telecommunications equipment to deaf and disabled individuals. Of the nearly 1,500 carriers that are certified by the CPUC, roughly 32 percent have submitted payments over the last two years. Although it is possible that some of the certified carriers do not provide services that are subject to the surcharge, neither the DDTP nor the CPUC has a firm grasp on which carriers should be collecting and remitting surcharges. In addition, these carriers sometimes remit surcharges past their due date and usually do not pay assessed interest penalties. Moreover, neither the DDTP nor the CPUC have systems in place to ensure that all carriers that are collecting the surcharges from their customers are remitting those surcharges to the Deaf Equipment Acquisition Fund Trust (DEAF Trust).

Furthermore, many carriers, although required to remit surcharges on a monthly or semiannual basis, remit irregularly without penalty. In addition, carriers do not always consistently apply the surcharge rate to the various types of intrastate service charges. Also, the DDTP does not monitor the timeliness of carrier remittances to identify carriers that are remitting late. As a result, the DDTP does not notify the CPUC, which has the authority and responsibility to levy late-payment penalties on the carriers.

² Throughout this report, we use “program” when referring to the mandated functions and services and “DDTP” when referring to the entity that administers and carries out these functions and services.

MANY CARRIERS DO NOT REMIT SURCHARGES OR REMIT THEM LATE

Although the DDTP and the CPUC share responsibility for ensuring that all mandated surcharges are remitted to the DEAF Trust, neither entity has a firm grasp on which carriers should be collecting and remitting these surcharges. In the absence of proper controls, many carriers do not remit surcharges or remit them late, meaning the DDTP probably is not receiving all the funds it should. Moreover, carriers may be collecting the surcharges from their customers but not remitting them to the DEAF Trust.

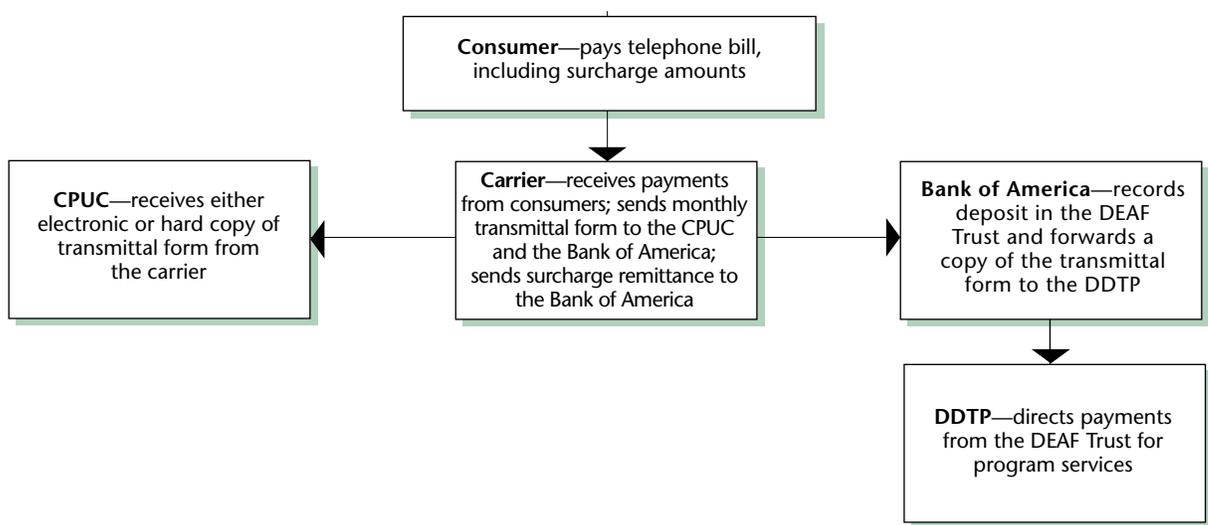
All licensed and certified telecommunications carriers that provide intrastate services are required by state law to assess a surcharge on their customers. The carriers then remit the money to the DEAF Trust. As of June 2002, these surcharges are 0.48 percent of most intrastate billings—meaning calls made within California. These surcharges pay for the operations of the DDTP, as well as for program services and equipment. Carriers must send their payments electronically or by mail, along with a transmittal form, to the Bank of America, which is the trustee of the DEAF Trust. If the carrier submits a payment electronically, the form automatically is sent to the CPUC. Otherwise the carrier is required to send a copy of the transmittal form to the CPUC. After the Bank of America verifies the transmittal form and deposits the money into the DEAF Trust, it sends a printed copy of the form to the DDTP. Figure 2 illustrates this flow of funds.

As of April 2002, the CPUC's list of active carriers totaled 1,483. According to the CPUC, these are carriers that currently are certified to operate and/or provide telecommunications services in California. However, the CPUC is not sure how many or which of these carriers are actively providing intrastate services that are subject to the surcharge. With some exceptions, all calls within the State of California are intrastate calls, and to the extent that carriers bill their customers for those calls, the surcharge should be applied to the charged amounts.³ It is possible that not all the 1,483 carriers are currently providing intrastate services subject to the surcharges. However, only 469 (31.6 percent) of these carriers submitted a payment for at least one reporting period covering either 2000 or 2001. Specifically, 408 carriers, or 27.5 percent of those certified, submitted a payment for at least one reporting period in 2000, and only 361, or 24.4 percent, submitted a payment for at least one reporting period in 2001.

³ The exceptions can be seen in the box on page 27.

FIGURE 2

Flow of Surcharge Revenues From the Consumer to the DDTP



These numbers illustrate that at least 68 percent of the carriers on the CPUC's active list did not remit surcharge revenue for 2000 or 2001. The CPUC could provide no definitive reason for why these carriers did not remit during the past two years. Some options include (1) they do not provide services that are subject to surcharge, (2) they stopped operating before January 2000 or did not begin operating until after December 2001, (3) they do not collect the surcharge from their customers, or (4) they simply do not remit the surcharges they collect. No one, including the CPUC, knows for sure what the reason is. In any event, it is likely that some, if not many, of these carriers should be submitting surcharge revenue.

Moreover, of the approximately 32 percent of carriers that did submit at least one payment for either or both of the past two years, many did not pay as frequently as they should have. As we discuss later, carriers are required to make payments monthly or semiannually, the latter only if they qualify. As Table 2 on the following page shows, only 161, or 39 percent, of the 408 carriers that submitted at least one payment for 2000 paid as frequently as required. Appendices A and B detail the carriers that submitted at least one payment for 2000 and 2001, respectively, as well as the frequency with which each submitted.

TABLE 2

Less Than Half of Carriers That Submitted Payments for 2000 Submitted Them as Frequently as Required*

Frequency of Submission for 2000	Number of Carriers
Monthly	153
Semiannually	8
9 to 11 times	119
6 to 8 times	45
2 to 5 times	55
1 time	28
Total	408

Source: Surcharge Transaction History for 2000.

* Only those carriers submitting monthly or semiannually are in compliance.

It is possible that some of the carriers were not registered until later in that two-year period or lost their certification earlier in the period, indicating a potential reason for nonpayment during some of the months. To test this theory, we identified 30 carriers that made one or more payments for 2001 but none for 2000, to see if perhaps they were not certified until 2001. Of these 30, we found that 23 were certified before or during 2000, most likely indicating that they should have made payments for that year. Conversely, we identified 30 carriers that made one or more payments for 2000 but not for 2001, to see if perhaps they had lost their certification before 2001. Of these 30, we found that 24 are certified and listed as active by the CPUC, indicating that they most likely should have made payments for 2001. One can conclude from this that many carriers do not submit as frequently as required.

THE CPUC AND THE DDTP LACK ADEQUATE CONTROLS TO ENSURE THAT CARRIERS COLLECT AND REMIT ALL AMOUNTS DUE

The DDTP must rely on the CPUC to provide accurate information regarding which carriers are providing intrastate services that are subject to the surcharge and the frequency with which each carrier is required to submit. However, the DDTP says the CPUC does not provide this information. In addition, the DDTP should recognize when carriers that have been remitting are no

The DDTP does little to track the payment history of carriers, likely resulting in uncollected revenue.

longer doing so. It also should verify that the carriers are charging the appropriate surcharge rate and, when applicable, are submitting the appropriate late-payment penalty. When the DDTP discovers that carriers are not complying, it should notify the CPUC, which has enforcement authority, including the ability to assess late-payment penalties and/or to revoke carriers' ability to operate in California. However, the DDTP does little to track the payment history of carriers and does not identify those that submit late, likely resulting in uncollected revenue.

The CPUC Does Not Identify All Carriers That Should Be Collecting and Remitting Surcharges or How Often They Should Do So

The CPUC requires carriers to report and remit surcharges on a monthly basis. Carriers also have the option to make payments semiannually on a cumulative basis covering a six-month period if their average intrastate billings subject to surcharge are equal to or less than \$10,000 per month. Carriers electing to submit semiannually must inform the CPUC that they qualify. Those paying at intervals other than monthly or semiannually are out of compliance. As of June 2000, the CPUC had a list of 34 carriers that had elected to file semiannually. However, the CPUC has not shared this information with the DDTP, claiming the DDTP has not requested such information.

The DDTP Does Not Adequately Review or Record the Payments It Receives

According to its internal control procedures, the DDTP is responsible for reviewing incoming transmittal forms, which detail remittances, and for maintaining an accurate record of payments so it can recognize which carriers have not remitted as frequently as required. According to its procedures, the DDTP is also to notify the CPUC when carriers have not remitted within the specified period. Although the DDTP receives transmittal forms, it does little more than a cursory spot check of those forms before filing them away. In fact, we observed that for the first several months of 2002, the DDTP had not even opened the package of transmittal forms sent from the Bank of America.

In addition to not reviewing transmittal forms adequately, the DDTP does not maintain an accurate record of payments or a payment history of carriers. According to the DDTP's internal control procedures, it is required to enter all surcharge receipts into a database, to assist in tracking carrier payments as well as

in reconciling bank records. As a result of legislation, the legal authority to assess surcharges on intrastate services was suspended from January through August 2001. Before the eight-month suspension, DDTP staff reviewed transmittal forms and entered data from the forms into a database. During the suspension of the surcharge, the practice of entering information on remittals into the database was discontinued. After the Legislature reinstated the surcharge in September 2001, the DDTP never reestablished the practice, instead paying little, if any, attention to the incoming transmittal forms.

The DDTP has been remiss in identifying carriers that have missed payments, potentially resulting in hundreds of thousands of dollars of uncollected funds.

Because the DDTP has not adequately monitored the payment history of carriers, it has been remiss in identifying both small and large carriers that have missed payments, potentially resulting in hundreds of thousands of dollars of uncollected funds. Granted, most carriers certified by the CPUC are relatively small, generating minor amounts of revenue. However, the amounts are significant when taken cumulatively. For example, we estimate the program should have received from small carriers in 2000 an additional \$310,000 in surcharges alone, not counting any late-payment penalties that might have been assessed. Even larger carriers—which typically submit as required—sometimes miss payments, in which case hundreds of thousands of dollars may be lost without proper monitoring. For example, the DDTP did not recognize that one large carrier missed submitting a payment for June 2000. As of April 2002, the carrier still had not submitted the payment. If the payment were similar to what this carrier paid in the six months after June 2000, the DDTP should have received approximately \$200,000 for June.

As Table 3 illustrates, the 20 carriers that submitted the most revenue for the year 2001 accounted for approximately \$30.4 million (88 percent) of the \$34.4 million in surcharge revenue paid for that year. In addition, the 20 carriers that submitted the most revenue for the year 2000 accounted for approximately \$38.7 million (89 percent) of the \$43.4 million in revenue submitted for that year. It is essential that the DDTP and the CPUC monitor the payments of these larger carriers, because missing even one payment from some of them could represent a significant loss of revenue.

TABLE 3**Surcharge Revenue Received From the 20 Largest Carriers Remitting for 2000 and 2001**

20 Largest Carriers Remitting for 2001			20 Largest Carriers Remitting for 2000		
CPCN*	Name of Carrier	Amount	CPCN*	Name of Carrier	Amount
1001	Pacific Bell Telephone Company	\$8,946,496	1001	Pacific Bell Telephone Company	\$13,188,741
3060	Cingular Wireless	3,026,156	1002	Verizon California Inc.	4,076,230
1002	Verizon California Inc.	2,664,531	3060	Cingular Wireless	2,997,905
5002	AT&T Communications of California	1,917,211	5002	AT&T Communications of California	2,629,680
3066	Nextel of California, Inc.	1,868,520	3003	Los Angeles SMSA Limited Partnership	2,423,117
3003	Los Angeles SMSA Limited Partnership	1,783,437	3009	AB Cellular Holding, LLC	2,133,321
3009	AB Cellular Holding, LLC	1,605,883	3066	Nextel of California, Inc.	1,911,919
5011	MCI WorldCom Network Services, Inc.	1,288,884	5011	MCI WorldCom Network Services, Inc.	1,813,864
3007	Bay Area Cellular Telephone Company	1,275,998	3007	Bay Area Cellular Telephone Company	1,169,657
3002	GTE Mobilnet of CA, Ltd. Ptnrshp.	1,180,411	3064	Cox Communications PCS, L.P.	1,020,436
3064	Cox Communications PCS, L.P.	1,165,463	3002	GTE Mobilnet of CA, Ltd. Ptnrshp.	835,329
3062	WirelessCo., L.P.	811,344	3010	AT&T Wireless Services of CA, Inc.	710,153
3010	AT&T Wireless Services of CA, Inc.	761,508	3062	WirelessCo., L.P.	696,779
3001	Cellco Partnership	388,328	5494	Verizon Select Services, Inc.	616,245
4236	Choice Communications	355,881	5378	MCI WorldCom Communications, Inc.	553,921
5378	MCI WorldCom Communications, Inc.	348,117	5112	Sprint Communications Company, L.P.	509,002
3004	Sacramento Valley Ltd. Partnership	309,052	3001	Cellco Partnership	489,993
5112	Sprint Communications Company, L.P.	291,316	3004	Sacramento Valley Ltd. Partnership	396,718
5732	Bell Atlantic Communications, Inc.	212,607	5172	Metropolitan Fiber Systems of CA, Inc.	276,160
3029	Verizon Wireless, LLC	199,753	4236	Choice Communications	271,691
Total of 20 largest carriers		\$30,400,896	Total of 20 largest carriers		\$38,720,861
Total 2001 revenue remitted by all carriers		\$34,434,800	Total 2000 revenue remitted by all carriers		\$43,399,615
Largest carriers percentage of total		88.3%	Largest carriers percentage of total		89.2%

Source: Surcharge Transaction History of 2000 and 2001.

* Certificate of Public Convenience and Necessity.

The DDTP also does not always review carriers' transmittal forms to ensure that the carriers are applying the correct surcharge rate. Since January 2000, the surcharge rate has changed three times, ranging from zero percent during the period from January through August 2001 to 0.481 percent from September 2001 through November 2001. The rate currently in effect is 0.48 percent. Although the DDTP claims that it performs spot reviews of transmittal forms for accuracy, this is not enough to ensure that carriers are applying the correct surcharge rate. The DDTP should develop and review a payment history of carriers so it can look for trends, including major decreases in the revenue submitted. Without such procedures, erroneous or missing payments can go undetected.

For example, we discovered that one large carrier's payment for September 2001 was almost \$200,000 less than payments it made for subsequent months. When prompted by us, the DDTP researched the matter and discovered that the carrier's smaller payment for September was actually a payment for prior period adjustments, not a regular surcharge payment. By researching this matter, the DDTP learned that the carrier had not made a regular payment for September, claiming that it was unaware that the surcharge had been reinstated as of September 2001. The carrier subsequently corrected this error by remitting a payment of \$170,890.

To ensure that carriers are applying the correct surcharge rate, the CPUC sends letters to all carriers informing them of the changes to the surcharge rate. It provided us with a copy of the letter it sent to all carriers notifying them of the new surcharge rate. Although we could not determine whether all the carriers had actually received the letter, the carrier discussed above had received it.

In addition, 165 carriers remitted surcharge revenue for January through August 2001, when the surcharge had expired and the carriers were not required to remit. According to our calculations, the DDTP collected \$1,817,336 of surcharge revenues from these carriers for this eight-month period. As of June 2002, these funds are still in the DEAF Trust and have not been returned to the proper carriers. According to the DDTP, the CPUC recently requested a detailed listing of all surcharges remitted during this period, but the CPUC has yet to create a plan on how or whether to reimburse the funds to the carriers or the customers.

Finally, because the DDTP does not maintain accurate records based on the transmittal records it receives, it is unable to investigate any potential discrepancies between the information recorded on the transmittal forms and that in the DEAF Trust statements provided by the Bank of America. As we mentioned earlier, before January 2001, DDTP staff created a database with data from the transmittal forms. The database supposedly was used to reconcile the transmittal information to the DEAF Trust statement every month. However, the DDTP has discontinued this practice since the reinstatement of the surcharge. It claims that software flaws in the Access program make the database unreliable. Failing to reconcile the transmittal forms to the trustee's bank statement, the DDTP must rely solely on the

The DDTP collected \$1.8 million in surcharge revenues during a time when carriers were not required to remit.

remittance receipts posted by the bank, leaving potential errors unspotted. The DDTP informed us that it recently implemented a system to validate deposits made by the Bank of America.

The DDTP Does Not Identify Late Payments or Report Them to the CPUC

According to its own policies and procedures, the DDTP is to send out past-due notices to all local carriers on a monthly basis and at least quarterly to all other telecommunications providers—such as long distance or paging carriers—when they have failed to remit as expected. The DDTP is also to contact the CPUC’s Public Programs Branch chief concerning all delinquent surcharges. However, the DDTP does not carry out any of the aforementioned procedures.

The CPUC transmittal form instructions state that surcharge revenue remitted after the 40th day following the close of the reporting period is past due and will incur a penalty equal to an annual rate of 10 percent. We observed that many carriers submit surcharge payments on or near the due date, causing many of them to become delinquent by the time the trustee receives them. Although it is true that the CPUC has ultimate enforcement power, the DDTP neither tracks which carriers are late in submitting payments nor confirms that the carriers are remitting the appropriate late-payment penalty. As a result, large amounts of revenue in the form of late-payment penalties go uncollected, and the DDTP has missed out on thousands of dollars of revenue that could be used to provide services to the deaf and disabled communities.

One carrier submitted two surcharge remittances, totaling more than \$400,000 each, 142 and 111 days late, respectively, but did not submit any late interest penalties, which should have been almost \$31,000.

Some large carriers submit payments late, failing to remit the interest penalty in the process. For example, the DDTP did not recognize that a large carrier had failed to submit surcharge remittances for September and October 2001, even though it submitted them for November and December 2001. Based on the amounts the carrier submitted during those two months, we estimated the DDTP had missed out on payments of approximately \$444,000 each for September and October. On April 2, 2002, the carrier remitted \$439,500 for September and \$454,850 for October 2001, or 142 and 111 days late, respectively. However, the carrier did not submit any late-payment penalties, which should have been almost \$31,000.

The DDTP does not have an updated system to send out past-due notices automatically. According to the DDTP, it believes that it is unable to determine which carriers should remit surcharge revenue because it claims that limited information exists as to when carriers began or stopped providing services subject to the surcharge. However, we determined that the date most carriers were certified by the CPUC is readily available on the CPUC's Web site. In addition, the DDTP asserts that the CPUC's record of carriers is unreliable due to repeated carrier name changes that appear on the DEAF Trust statements from the bank. However, the trust statements show the carriers' assigned certification numbers. For the most part, the DDTP should be able to rely on those numbers. Although the reporting of delinquent carriers is required by its own policies, the DDTP does not monitor carrier remittances, and delinquency goes unreported.

Another large carrier submitted two payments totaling \$191,000 approximately four months late, but did not submit the more than \$6,600 due in late interest penalties.

In another example, a large carrier finally remitted, in April 2002, \$191,000 for payments it missed for September and October 2001. Because the DDTP failed to identify this delinquency and notify the CPUC, these payments were submitted approximately four months late. In addition, this carrier's late payments did not include interest penalties, which we calculated should have been more than \$6,600. We were able to identify exceptions such as these by reconstructing information available at the DDTP. If the DDTP maintained accurate records of payments, it would be able to conduct these types of analyses easily and quickly identify which carriers are out of compliance. This would allow it to notify both the carriers and the CPUC, which has the necessary enforcement powers.

THE CPUC COULD IMPROVE ITS OVERSIGHT OF THE DDTP AND THE PROGRAM

The CPUC, despite being the governing body over the program and the DDTP, does not always demonstrate consistent oversight over the revenue collection functions performed by the DDTP. In addition, while the DDTP has responsibility for identifying when carriers do not collect and remit surcharges correctly, the CPUC has responsibility for enforcement of the program's requirements, including revenue collection. For example, as we discussed earlier, the CPUC does not know with any certainty which of the 1,483 carriers on its April 2002 list of active

carriers provide intrastate services that are subject to surcharges. In fact, more than 1,000 of these carriers submitted no surcharge revenues for 2000 or 2001.

In addition, the CPUC does not ensure that carriers are following its instructions regarding the collection and remittance of surcharge revenues. As a result, there is a great deal of inconsistency and inefficiency in the surcharge process. For example, we reviewed a limited number of invoices submitted by 10 carriers to their customers and found that the carriers did not consistently apply the surcharges to the different types of intrastate service charges. This may be occurring because the guidance provided on the remittance form and on the CPUC's Web site is not detailed enough. The CPUC tells carriers that they should, with some exceptions, apply the surcharges to all intrastate charges, but the definition of intrastate charges is unclear. For example, the instructions are unclear as to whether

carriers should apply the surcharge to telephone charges tied to length or volume of intrastate calls only or if they should apply it to all or a proportion of monthly service fees as well.

Moreover, we found that at least one local carrier did not apply the surcharges to intrastate calls that it billed on behalf of one long-distance carrier. This occurred even though the local carrier did apply the surcharge properly to the intrastate services it had provided.

In addition, carriers apply different methods when reporting and paying late-payment penalties. From our observation of hundreds of transmittal forms, we noticed that carriers that remit revenue late generally do not pay the appropriate penalties. In a sample of 25 late payments remitted for 2000 and 2001, \$68,000 in interest penalties had accrued but had not been paid as of April 2002. Over the period, \$3 million had been delinquent from these 25 late payments for an

average of 76 days. Moreover, we found that the few carriers that do submit late-payment penalties use a couple of different methods. Some prorated the annual 10 percent interest penalty on a daily basis to the number of days delinquent, while some paid a full 10 percent on the surcharge amount due, regardless of how many days the payment was late. Prorating the annual 10 percent interest penalty on a daily basis is the

According to the CPUC's transmittal form instructions, carriers must assess the surcharges on all their billings for intrastate telecommunications services except for the following:

- Discounted services under the Universal Lifeline Telephone Service program.
- Charges to other carriers for resale purposes.
- Public phone coin in box and telephone debit cards.
- Contracts effective before September 15, 1994.
- Usage charges to coin-operated pay telephones.
- Sale and/or lease of customer premises equipment.
- Directory advertising.
- One-way radio paging.

correct method, indicating that some carriers overpaid interest penalties. Delinquent carriers and inconsistencies in reporting have gone unnoticed because the CPUC has not enforced transmittal guidelines strictly. Further, this lack of oversight may have allowed carriers to withhold significant amounts of money from the DEAF Trust without penalty.

Although the CPUC conducts periodic remittance audits for some of its universal service programs, it does not do so for the DDTP.

One way the CPUC could obtain some assurance that carriers are reporting correctly would be to conduct remittance audits. The CPUC conducts periodic remittance review audits of various carrier practices and procedures for some of its universal service programs, but it does not do so for the DDTP. It claims that once funds from the DEAF Trust are incorporated into the State Treasury, the CPUC's Telecommunications Division plans to perform annual remittance reviews of surcharges remitted to the DDTP. The CPUC's audits of other programs include examining the accuracy of surcharge revenues remitted by carriers as well as claims and payments received from the programs. The DDTP does not conduct or participate in such audits. Although the DDTP claims it does unofficial "spot reviews" of transmittal forms to ensure transmittal accuracy, these reviews pale in comparison to the highly detailed audit procedures set forth in the CPUC's remittance audits. The CPUC's Telecommunications Division believes that, based on position descriptions for DDTP accounting staff, it is the responsibility of the DDTP's accounting department to conduct annual remittance reviews. However, the last such review by the DDTP occurred in 1997, and none has taken place since. Unchecked carrier practices and procedures create the potential for errors that would hamper the DDTP's ability to carry out its mission. Since the receipt of surcharges is vital to the operation of the DDTP, carrier procedures for collecting and submitting surcharge revenue must be reviewed universally to ensure that they are being followed properly. ■

CHAPTER 2

Imprudent Use of Public Funds, in Addition to Generous Salaries, Leaves Less Money Available for Program Services

CHAPTER SUMMARY

The Deaf and Disabled Telecommunications Program (DDTP),⁴ charged with providing telecommunications equipment and services to deaf and disabled individuals, does not always further this mission when expending public funds. Specifically, in our limited review of credit card purchases and expense reimbursements, we found that the DDTP has expended hundreds of dollars unrelated to the services mandated for the program. In part, this is because the DDTP has not adequately defined policies and procedures for credit card use. Some frivolous credit card purchases approved by management included flowers, gifts for employees, staff luncheons, and party decorations, adding up to more than \$1,000. In addition, the DDTP has reimbursed its employees for expenses totaling more than \$12,000 typically not seen in the public sector, such as moving and rent expenses for newly hired employees. Although these imprudent expenditures represent only a small portion of the DDTP's budget, such use of public funds can undermine citizens' confidence in government. After we brought these concerns to the attention of management, the DDTP initiated corrective action by strengthening its policies and procedures regarding allowable expenditures. Also, employees have repaid the DDTP for many of these expenditures.

The salaries and benefits of DDTP employees appear generous when compared with those of state employees in similar positions. Although DDTP employees are not state employees, their salaries are paid with taxpayer funds. The DDTP claims that it based employee salaries on information from a salary survey conducted by outside consultants. However, the salaries of

⁴ Throughout this report, we use "program" when referring to the mandated functions and services and "DDTP" when referring to the entity that administers and carries out these functions and services.

selected DDTP employees average 21 percent higher than the recommendations in the salary survey. In addition, our own analysis shows that the maximum step of some DDTP salary ranges, on average, are approximately 24 percent higher than those for comparable positions in state civil service. Finally, although some DDTP employees receive taxable fringe benefits such as parking and use of leased vehicles, the DDTP neither identified nor reported these benefits to the taxation authorities until we brought it to the DDTP's attention.

All DDTP contracts that we reviewed comply with the Public Contract Code, but only some contain adequate benchmarks and standards for contractors. In two warehouse contracts, the original contract contained no measurable benchmarks or standards for the contractor to follow and no provisions for the collection of monetary penalties should the contractor fail to comply. The DDTP has not been entirely satisfied with the services provided by these contractors. Although the DDTP is beginning to implement performance requirements for these contracts, the initial lack of provisions for collecting monetary penalties may have cost the DDTP thousands of dollars it would have been entitled to if the contractor failed to meet established standards.

THE DDTP DOES NOT ALWAYS FURTHER THE PROGRAM'S MISSION WHEN EXPENDING PUBLIC FUNDS

The DDTP sometimes spends public funds on items that are unrelated to program services or that do not further the program's mission. Specifically, the DDTP tends to spend excessive amounts on food for training sessions, committee meetings, and other events. In addition, many program employees have DDTP credit cards, sometimes charging imprudent expenditures such as gifts and meals. Also, the DDTP has in the past reimbursed employees for expenses typically not permitted in public service, such as moving expenses and temporary rent payments. As a result, less money is available for the individuals it serves. However, the DDTP has initiated corrective action by adopting new policies on allowable expenditures.

The DDTP lacked a clear policy concerning expenses that are not allowable.

Some Expenditures Have Been Unnecessary or Excessive

The DDTP has not always ensured that the public funds it spends are for reasonable or necessary items or those furthering the program's mission to provide telecommunications services to deaf and disabled individuals. The main reason for this was a

lack of clear policy concerning expenses that are not allowable. During our review of expenditures, we discovered several that were unnecessary, excessive, or in conflict with stated policies and procedures or state laws and regulations.

The DDTP spent between three and four times the established per diem limits for meals during some committee meetings.

For example, we reviewed an invoice in which the DDTP paid the Hilton in Long Beach almost \$13,000 for two consecutive days of committee meetings in November 2000. Nearly \$3,700—or 28 percent of the total bill—was for breakfast and lunch of committee members and DDTP staff over the two-day period. Specifically, one day the DDTP spent \$502 on continental breakfasts for 20 individuals, more than \$25 per person. A few hours later, the same 20 individuals incurred \$647 in lunch expenses, equal to \$32 per person, including tax, tip, and service fee. These amounts are three to four times the per diem limits set by the DDTP’s own policies and procedures, as well as state guidelines.

On a separate occurrence, the DDTP paid the Oakland Airport Hilton more than \$3,200 for meals provided to committee members and DDTP employees for two days of committee meetings in January 2000. Specifically, on one day the DDTP spent \$2,035 to feed 73 DDTP employees and committee members buffet lunches, equaling almost \$28 per person. The next day, the DDTP spent \$644 on lunch for 25 individuals, or \$26 per person. Furthermore, the DDTP spent more than \$800 for three of its employees—who work at DDTP headquarters in downtown Oakland—to stay at the Oakland Hilton, less than eight miles from the DDTP’s office. The DDTP has stated that it complies with state policies, but the California Code of Regulations states that lodging or per diem expenses for employees are not allowed at any location within 25 miles of department headquarters.

Excessive expenditures of public funds such as these constitute waste and inefficiency. However, since we brought these examples to the DDTP’s attention, it has implemented a new policy that employee lodging is no longer allowable when the DDTP event is less than 50 miles from the employee’s regular work location. In addition, the DDTP stated that it budgets every year for committee meeting meals, the CPUC has approved these budgeted expenses each year, and the DDTP has never exceeded its approved budget. However, the DDTP’s new policy specifies that employee meal expenses no longer are allowable except in conjunction with employee travel.

We also observed that the DDTP paid more than \$8,700 to a catering business for the cost of catered food at various training events, meetings, and celebrations during a 15-month period in 2000 and 2001. One payment was for breakfast, lunch, and cake to feed 400 people—a one-year anniversary open house, at the request of the administrative committee, for employees of the company with which the DDTP contracts to operate its call center, their families, and members of the community. Call center employees are the initial points of contact for people wanting to learn more about equipment or the services the program provides. We question the prudence of the DDTP spending taxpayer funds to sponsor such an event for its contracted help. After we brought this to the DDTP's attention, it claimed the open house was planned as a joint event, sponsored by the call center vendor and the DDTP. However, the DDTP said the vendor withdrew its sponsorship, leaving the DDTP to pay for the entire event. Nonetheless, the DDTP implemented a new policy that it no longer will conduct or pay for events such as these for vendors or at vendors' facilities.

The DDTP Recently Has Strengthened Its Policies and Procedures Concerning the Use of Credit Cards

A prior lack of firm policies and procedures governing the use of DDTP credit cards allowed employees to incur imprudent expenditures. Neither the DDTP's employee handbook nor its internal control procedures clearly specified what purchases were considered valid for business purposes. Guidance on this matter from the CPUC consisted of a letter sent to the DDTP in 1998 reminding its staff that the program is funded by public money and should be held accountable for using these funds in furtherance of the program's mission.

As of April 2002, 24 employees had DDTP-issued credit cards with credit limits ranging from \$1,000 to \$3,000. Most upper-level staff, including department managers and DDTP supervisors as well as outreach specialists, have cards. DDTP management needs to ensure that purchases made with those cards are prudent and that proper support and evidence are provided to document purchases.

While reviewing credit card purchases totaling almost \$57,000 over a seven-month period—from July 2001 through January 2002—we noted many questionable purchases. We selected 24 purchases totaling \$7,380 because the vendor name sounded unusual for public sector, business-related purchases and found that \$1,135

During a 7-month period, employees charged nearly \$400 to their DDTP-issued credit cards to purchase flowers for fellow employees and committee members.

(15 percent) of the cost of these purchases did not further the program's mission. For example, we found eight separate purchases for flowers, ranging from \$28 to \$66 per purchase and totaling almost \$400. In each case, the flowers were delivered to fellow employees or committee members to offer sympathy, congratulations, or get-well wishes. We also identified one purchase of gifts for other employees and another for break room appliances for DDTP employees totaling more than \$75. For example, the DDTP purchased Starbucks gift certificates as motivational prizes for some employees. Employees should use their own money, not public money, to pay for these types of expenses.

A high-ranking employee charged \$157 to host a special luncheon for eight other high-ranking employees, expressing appreciation for their hard work and dedication to the program.

Among the 24 purchases, we noted several others for unnecessary items. For example, a high-ranking employee charged \$157 to host a special luncheon for eight other high-ranking employees, expressing appreciation for their hard work and dedication to the program. In addition, we found that on three separate occasions, employees spent a total of \$253 for items labeled as party decorations and prizes. Finally, we noticed three additional purchases for cake as well as a \$250 purchase for friendship pins that appear to have been some sort of gift. These expenses do not further the program's mission. These examples were ones occurring only over the seven-month period we reviewed. This would indicate there might be others. It would seem reasonable that managers should use their own money if they decide it is in their best interest to provide such things as food, gifts, and flowers to the DDTP's employees or vendors.

Granted, each purchase we discussed above is relatively insignificant when compared with the DDTP's approximately \$50 million annual budget. Although expenses such as these are common in the private sector, such use of public funds constitutes waste, contributing to less money available for program services. We discussed this issue with DDTP management and provided copies of the imprudent expenditures for further management review. As a result of our discussion, the DDTP has implemented new policies disallowing these types of expenditures, including flowers, gifts, food, and expenses for celebratory events. In addition, the expenditures in the examples detailed above and others have been repaid to the DDTP.

The DDTP Has Made Other Expenditures Typically Not Found in Public Service

Yet another example of imprudent expenditures of public funds involved the payment of moving costs and temporary lodging for two former DDTP employees. In addition, the DDTP failed to fulfill its duty to report these payments as taxable income for these two employees. We discovered that in 1999 the DDTP paid \$8,214 to an employee to cover the costs of relocating the employee and spouse from Texas to California. These costs included a separate house-hunting trip as well as all travel, meals, and lodging expenses. This employee voluntarily left the DDTP after only 11 months. California law states that if for reasons not approved by the state department concerned, an employee does not stay employed for a period of two years, he or she shall reimburse the state entity for the full or proportionate amount of the moving and travel expenses. In another example, in 1999 the DDTP paid for an employee's temporary lodging in an apartment for three months at \$1,560 per month, or \$4,680, while the employee attempted to locate permanent housing.

The DDTP did not seek the CPUC's approval for temporary lodging and moving expenses totaling over \$12,000 it paid to two former employees.

Although state law does not necessarily prohibit expenses such as these, such payments are typically not seen in the public sector among general employees. Although DDTP employees are not state employees, they are paid with public funds. The California Government Code states that if payments such as moving expenses are made, they shall be certified by the appointing power as being expenditures necessary to recruit qualified persons. Because the Legislature envisioned that the CPUC would exercise oversight of the expense reimbursements of its advisory committees, it is reasonable to assume that the CPUC should exercise oversight over DDTP employee reimbursements in a similar manner. However, the DDTP did not seek authorization or approval from the CPUC for these payments, nor did it seek CPUC approval for not recovering the expenses from the employee who left the DDTP after 11 months. It stated that it offered to reimburse these employees for some relocation expenses because these candidates were the most qualified for the positions and would bring needed expertise to the DDTP during a period when it was absorbing operations performed by the local telephone companies.

Moreover, the State Controller's Office requires that certain nonqualified moving expenses—such as house-hunting trips and temporary living expenses—as well as all qualified moving expenses (when certain tests are met) be reported as taxable

income on the employee's W-2 form. Based on these criteria, we determined that the DDTP should have reported \$8,214 and \$4,680 of taxable income, respectively, on the W-2 forms for the two employees described above. The DDTP did not do this. It is essential that the DDTP adhere to applicable laws and regulations that govern the reporting of taxable income.

EMPLOYEE SALARIES AND BENEFITS ARE GENEROUS WHEN COMPARED WITH STATE EMPLOYEE SALARIES AND BENEFITS

The salaries and benefits of DDTP employees appear generous when compared with those of similar state employees. Although DDTP employees are not state employees, their salaries and benefits are paid with public funds. A salary comparison of 12 DDTP employees shows that the maximum step of salary ranges of these employees are, on average, 24 percent higher than those of comparable state positions, with one salary being 48 percent above a similar classification in civil service. Although the CPUC approves the DDTP's overall salary budget, it does not approve individual salaries. Finally, some of the benefits received by employees, including health and life insurance, are significantly better than those of state employees.

The Salary Ranges of Many Upper-Level Positions Are Considerably Higher Than Comparable Public Sector Ranges

All 12 DDTP positions for which we reviewed salaries had salary ranges that are significantly higher than comparable state positions, in many cases 20 to 30 percent higher. We chose to study the salary ranges of the executive and deputy director, all department managers, the system administrator, and accounting staff. We then compared the minimum and maximum annual salary of these employees with those of state classifications performing similar duties and responsibilities based on position descriptions.

Of the 12 DDTP positions we reviewed, 11 have a minimum salary that is higher than that of similar state classifications—10 to 47 percent higher, in fact. Also, all 12 positions have a maximum salary that is higher than that of comparable state positions, ranging from 6 to 48 percent higher and averaging 24 percent higher. For example, the salary range of the DDTP's deputy director is \$80,000 to \$97,000 annually, while the salary range of the comparable state position is \$63,000 to \$69,000.

All 12 positions we reviewed have a maximum salary that is higher than that of comparable state positions, ranging from 6 to 48 percent higher and averaging 24 percent higher.

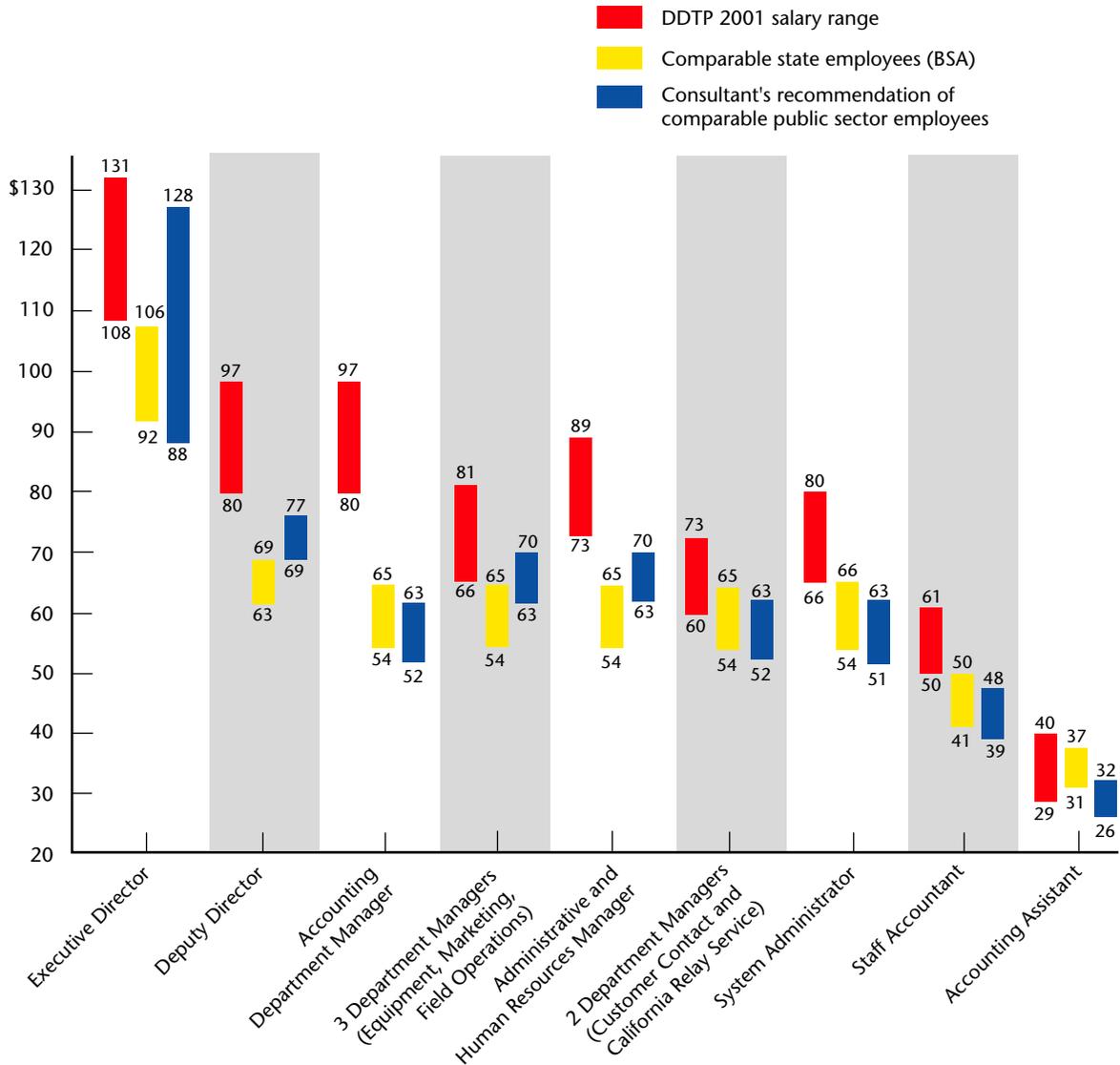
Also, the salary ranges for three of the DDTP's department managers are from \$66,000 to \$81,000 annually, compared with \$54,000 to \$65,000 for comparable state managers.

The DDTP claims that it based its salary schedule on information provided in a compensation study performed by outside consultants in June 2000. The consultants' analysis, though more in-depth, was similar to ours. It performed extensive research into job classification and description information from all aspects of the public sector—including federal, state, county, and city governments, as well as nonprofit organizations. The consultant then developed a salary comparison chart comparing DDTP salary ranges for 32 DDTP classifications with that of the job that it concluded most closely matched the duties and responsibilities of the DDTP position. Although most of the salary ranges the consultant identified as the best match were different from ours, the differences were relatively small. When compared with the consultants' salary survey, the minimum and maximum salary for all 12 DDTP employees we reviewed averaged 21 percent higher, with most ranging from 10 to 30 percent higher and the highest being 54 percent higher. Thus, using either comparison, Figure 3 shows that the 12 DDTP salary ranges are considerably higher than those of comparable public sector classifications.

The CPUC approved the DDTP's 2001 salary budget in September 2001. In doing so, it also adopted a 10 percent pay adjustment factor for DDTP employees, applied to all classifications, to provide a monetary offset to compensate employees for "the disparate levels of salary, benefit and terms and conditions of employment" for DDTP staff compared with state employees. It is obvious from Figure 3 that for at least the 12 employees we reviewed, the actual disparity goes in the opposite direction. The salaries of DDTP employees were already higher in 2000 than those of comparable State employees, and this 10 percent adjustment has increased the disparity. In addition, as we discuss next, the benefits received by DDTP employees are in many cases better than those received by state employees.

FIGURE 3

**12 DDTP Employee Salaries Are Consistently Higher Than Other Comparable Positions
(In Thousands)**



Sources: DDTP 2001 Salary Schedule, DDTP Compensation Study by Pacific Gateway Group.

Many of the DDTP's Employee Benefits Are Equal to or Better Than Those Received by State Employees

Some benefits currently received by DDTP employees are at least equal to or better than those received by comparable state employees. Specifically, health and life insurance benefits are generous compared with employees of the State.

DDTP employees may receive HMO or PPO coverage for any number of dependents at no cost to the employee.

With respect to health insurance, DDTP employees are not required to pay any out-of-pocket costs for health care premiums. This includes coverage from either health maintenance organizations (HMOs) or preferred provider organizations (PPOs). Although the State pays a large majority of the premiums for its employees, in most cases employees are required to pay the uncovered portion of the premiums, which—for coverage from the two largest HMO providers—ranges from approximately \$28 to \$78 per month, depending on the number of family members. The out-of-pocket costs for the two PPO providers are even higher, from \$67 to \$694 per month, again depending on the number of dependents. DDTP employees may receive coverage from either type of plan and for any number of dependents at no personal cost whatsoever. In fact, the DDTP pays a monthly premium of \$803 for one of its employees to receive coverage from a PPO.

In addition, the DDTP provides generous life insurance coverage for all its employees. The coverage amount is equal to two times the employee's annual salary, which for DDTP staff would range between \$48,000 and \$206,000, from the lowest-paid to the highest-paid employee. DDTP employees do not have to pay any of the life insurance monthly premiums. In contrast, only a small number of state employees—managerial and supervisory—receive life insurance benefits, ranging from \$25,000 to \$50,000 of coverage. Any additional coverage is at the employee's expense.

ALTHOUGH THE DDTP NOW PROPERLY REPORTS SOME FRINGE BENEFITS, IT NEEDS ADDITIONAL CONTROLS TO PREVENT PERSONAL USE OF VEHICLES

Previously, the DDTP failed to report to the proper taxation authorities taxable fringe benefits received by some of its employees. These benefits include paid parking and what appears to be personal use of leased vehicles. When we informed DDTP management of this, it began to initiate corrective action, including reporting parking benefits as additional income to the employee. The DDTP's external auditor has suggested the potential personal use of leased vehicles by DDTP employees is a "de minimus" (insignificant) fringe benefit and should be

excluded from income, in part because of the good internal control system in place to eliminate the personal use of leased cars. However, we believe the DDTP can do more to strengthen its controls to prevent or identify and report personal use of leased vehicles.

The DDTP Has Initiated Corrective Action to Report Taxable Fringe Benefits

For 2001, the DDTP paid parking fees for eight employees totaling almost \$24,000, but it did not report the taxable portion of this fringe benefit on the employees' W-2 forms.

The DDTP has been paying parking benefits to some employees for more than three years. Until we brought it to the DDTP's attention, it had not reported this taxable fringe benefit to taxation authorities. Currently, the DDTP pays monthly parking fees for seven of its employees to park in reserved spaces and for one other employee to park in an unreserved space at a parking garage near the DDTP's headquarters. The parking is provided to upper-level staff, department managers, and an executive assistant. The parking fee ranges from \$185 to \$225 per month, with the majority of the rates at \$225. For 2001, the DDTP paid almost \$24,000 for these parking benefits. According to the Internal Revenue Code, the DDTP should have been reporting income for this qualified taxable fringe benefit in excess of the maximum allowable exclusion amount for each employee. This income should appear on the employee's W-2 form. For 2001, the exclusion amount was \$180 per month. Thus, for the employees receiving the full \$225 benefit, the DDTP should have reported an additional \$45 of taxable income each month, or \$540 for the year for each employee who received the benefit for all 12 months.

We brought this to the attention of the DDTP's management, who took the issue to its external auditors. They determined that based on the value received by the employee, amended W-2s for 2001 should be issued to the appropriate employees. According to the DDTP's executive director, it has recently done this. In addition, the executive director stated that the DDTP has contacted its payroll processing service and obtained the proper coding for this type of entry to be included in the employee's paycheck as fringe income. The monthly parking fringe benefit was to be included in the first payroll run for May 2002 and was to also include a year-to-date entry back to January 2002.

The DDTP Can Improve Its Internal Controls to Track Potential Personal Use of Leased Vehicles

The DDTP has never reported to taxation authorities the value of personal use of leased vehicles that may have been provided to some DDTP employees as taxable income. Although the DDTP's external auditor concludes that such benefits are insignificant and should be excluded from income, the DDTP can strengthen its internal controls to prevent or record and report employees' personal use of leased vehicles. As of March 2002, the DDTP provided leased vehicles to 22 employees—12 field advisors and 10 outreach specialists. The field advisors cover large areas of the State, helping people install and learn to use specialized telephone equipment in their residences. The outreach specialists also travel their respective areas informing the public about program services through various events. We do not question the employees' need for vehicles, but we question whether enough controls are in place to prevent personal use of these leased vehicles.

When questioned as to whether the DDTP tracks or reports the value of personal use of these leased vehicles to taxation authorities, management took the matter up with its external auditors. The auditors assumed, based on what DDTP staff told them, that the DDTP has a good enough internal control system to eliminate the personal use of leased vehicles. We do not agree.

For example, the auditors stated, based on conversations with DDTP staff, that each employee is required to maintain a daily logbook or similar record of miles driven for business purposes. We determined that the employees do not maintain daily mileage logbooks. Rather, when fueling their vehicles, employees are required to record their current mileage electronically. Supervisors have access to this mileage information on a monthly basis, rather than daily. Total miles traveled by an employee can be compared with the distance between the client location, the DDTP office, and the employee's residence, but we were unable to determine that DDTP supervisors routinely analyze this information to determine whether vehicle use is for business only. We tested one employee's car usage over a one-month period, calculating the miles driven between the employee's residence and each site visited that month. We then compared this amount with the actual mileage the employee drove based on the fuel card statement. According to our calculations, the vehicle was driven 245 more miles than required to go back and forth every day from the employee's residence to all the sites the employee visited during the month. These extra

One employee drove her DDTP-leased vehicle more than required to go back and forth every day from her residence to her work sites.

miles represented 12 percent of the total miles driven. Although we did not determine the exact extent of personal mileage, it appears that some is very likely in this case.

The DDTP's employee manual does have written rules and regulations for the use of leased vehicles, clearly stating that cars should not be driven for personal use. In addition, according to what DDTP staff told its external auditor, supervisors perform surprise visits to check up on their employees regularly, although we were unable to determine the extent to which the supervisors check for personal use. In any event, we believe it would be prudent for the DDTP to label all its leased vehicles and designate them as "DDTP business use only."

Labeling vehicles in this fashion, similar to the way the State marks its vehicles, is a good way to remind employees of their accountability to the public to maintain proper use of the assets funded by taxpayers. In addition, it would be prudent and require little effort for employees who have leased vehicles to maintain daily mileage logs. Supervisors then should perform occasional tests using this daily record to determine the potential amount of personal vehicle use and initiate corrective action, if needed.

The auditors also stated that if there is occasional use of these vehicles not directly related to the business, it would be classified as a "de minimus" fringe benefit, or a benefit whose value is so small that it would make accounting for it unreasonably or administratively impracticable, taking into account the frequency with which similar fringe benefits are provided to other employees. We do not necessarily disagree with the auditor's conclusion, but the DDTP will not know whether such use is significant or insignificant until it implements controls to identify personal use.

ALTHOUGH DDTP CONTRACTS COMPLY WITH STATE REGULATIONS, SOME LACK SPECIFIC PERFORMANCE MEASURES

The DDTP has not always established performance measures for its contractors or included provisions in its contracts to allow it to collect damages from nonperforming contractors. Of the seven contracts we reviewed, four lacked specific standards, as well as provisions to collect monetary penalties for noncompliance. This lack of provisions may have caused the DDTP to miss

collecting funds from vendors who did not deliver the services as specified in the contract. However, the DDTP recently has taken steps to include appropriate performance measures in two of these contracts as well as penalties when standards are not met. Despite the lack of these important elements in some of its contracts, the DDTP has done an adequate job of complying with state laws and regulations related to contracting practices, such as competitive bidding and evaluation.

DDTP Contracts Comply With State Laws and Regulations

The DDTP contracts that we reviewed comply with applicable provisions of the Public Contract Code. Since its centralization of program services in 2000, the DDTP has contracted with a range of vendors to assist it in providing these services. Some of these contracts include ones to administer the California Relay Service (relay service), customer call center, and equipment distribution warehouse, as well as ones for equipment purchase and repair. We reviewed seven of the largest contracts for a variety of services and tested these contracts against applicable provisions of the Public Contract Code and State Contracting Manual. We found that for all seven contracts we tested, the DDTP adequately followed requirements related to advertising the bid or proposal, seeking competitive bids and evaluating contracts, and avoiding conflicts of interest. We also noted that, for most of its contracts, the DDTP hires qualified consultants to perform the majority of the work related to contract preparation, including developing the invitation for bid or request for proposal, managing the bidders' conference, developing evaluation criteria, and reviewing bids for compliance. In many cases, these consultants have a great deal of experience in bid initiation and contract preparation and are very familiar with state laws and regulations governing contracting practices.

For all seven contracts we tested, the DDTP adequately followed requirements related to advertising, seeking competitive bids and evaluating contracts, and avoiding conflicts of interest.

Some DDTP Contracts Have Adequate Standards and Provisions for Collecting Damages

The DDTP has worked to collect monetary penalties from MCI WorldCom (MCI) and Sprint over the last several years for noncompliance with certain service standards. In fact, the DDTP has collected more than \$622,000 in noncompliance fees from these two companies since the beginning of the contract in late 1996. The DDTP's contracts with these companies include standards such as (1) as a daily average, no more than 1 percent of relay service calls shall receive a busy signal, and (2) as a daily

Since 1996, the DDTP has collected from its two relay service providers more than \$622,000 in monetary penalties for noncompliance with certain service standards.

average, calls shall be answered within seven seconds. If MCI or Sprint fails to meet these standards, the DDTP assesses damages, usually at a rate of up to \$2,000 per day, plus incremental amounts if the contractors are not compliant over extended periods. The DDTP's relay service manager reviews monthly invoices from MCI and Sprint that detail many statistics, such as call volume, speed of answer, length of call, and so on, and identifies instances of noncompliance. After proper approval by the California Relay Service Advisory Committee and the Deaf and Disabled Telecommunications Program Administrative Committee, the penalties are assessed. Establishing standards such as these is very important because it not only gives contractors a benchmark to adhere to, but also gives the DDTP a means by which to measure contractor effectiveness. In addition, the DDTP recently has implemented a new set of standards and monetary penalty provisions for its call center contractor, including frequency of call blockage and answer time standards.

The remaining four contracts that we reviewed, however, lacked adequate benchmarks or standards to measure contractor performance. In addition, these contracts did not contain provisions for monetary penalties for nonperformance. The fact that the DDTP has not been fully satisfied with the services provided by a few of these contractors exacerbates this deficiency. Although the DDTP is beginning to implement new performance measurements for these contracts, the initial lack of measures and penalty provisions may have cost the DDTP thousands of dollars in noncompliance fees.

For example, the DDTP's two contracts for its equipment distribution warehouse—one for the warehouse facility and one for warehouse labor—lack definitive performance measures. Since these contracts went into effect in June 2000, the DDTP has expressed dissatisfaction with some of the service provided, including discrepancies in inventory practices, some outstanding work orders, and sub-par daily order accuracy rates. Had the DDTP established appropriate service levels, performance measures, and provisions to collect for noncompliance in the original contract, the vendors might have performed at acceptable levels or the DDTP might have collected penalties for their failure to do so. Establishing standards and performance measures as well as properly enforcing such measures are important administrative controls that enhance contract management as well as maintaining vendor accountability.

It is vital that the DDTP strictly hold its contractors to performance standards by collecting penalties when applicable.

The DDTP, however, recently has begun to implement steps to improve the quality of service provided by its warehouse contractors. Specifically, the equipment department manager has developed a service level agreement that details various performance standards, such as daily order fulfillment, accuracy, and inventory control, all with penalty provisions should the contractor fail to meet these standards. We strongly recommend that the DDTP take similar steps for its contracts lacking such performance measures. Moreover, it remains vital that the DDTP strictly hold its contractors to the new standards by collecting penalties when applicable. ■

CHAPTER 3

Recommendations to Improve Program Administration

As described in the Introduction, the administration of the Deaf and Disabled Telecommunications Program (program)⁵ is being reconfigured. Because it has not yet been determined who will be responsible for the day-to-day provision of program services, we are making several recommendations.

Proposed Changes to Program Administration

Currently, telecommunications companies (carriers) are required to submit surcharge revenues for the program to the Deaf Equipment Acquisition Fund Trust (DEAF Trust), maintained by the Bank of America. However, Senate Bill 669, enacted as Chapter 677, Statutes of 1999, directed that all surcharge revenues collected by the California Public Utilities Commission's (CPUC) universal service programs—including the DDTP—become part of the State of California Treasury. The intent of the legislation was to have the CPUC assume responsibility for surcharge revenues and operate the funds within the state system of budget controls and oversight. In doing so, the CPUC would oversee the process by which carriers remit surcharge revenues, ensuring that the funds are deposited properly into the newly created Deaf and Disabled Telecommunications Program Administrative Committee Fund in the State Treasury.

This legislation required the CPUC to report to the governor and the Legislature regarding a transition plan for the programs whose funds would be established in the State Treasury. The CPUC submitted a report to the Legislature in May 2001 detailing its plan to transition the funds of its universal service programs, including the DDTP, into the State Treasury to be entrusted to the state budgeting process. In this report, the CPUC concluded that transitioning its other universal service programs would engender little controversy, as the work

⁵ Throughout this report, we use “program” when referring to the mandated functions and services and “DDTP” when referring to the entity that administers and carries out these functions and services.

performed by these programs had a clear match with state civil service classifications. However, the same could not be said for the DDTP. The most controversial issue was the appropriate manner of transitioning the duties of a relatively large number of DDTP staff, none of whom are state employees. Many of the DDTP's employees—primarily field advisors, customer advisors, and outreach specialists—are deaf or disabled, or possess other specialized skills or experience needed to deliver services to the deaf and disabled communities. However, no comparable civil service classifications existed at the CPUC. DDTP staff were and currently are employees of the DDTP's administrative committee, and there is no contractual relationship between the DDTP and the CPUC. State law prohibits the State Controller from paying employees of any entity that is not a state agency unless those employees are working for a state organization under contract.

On July 28, 2001, the governor signed Assembly Bill 219—filed as Chapter 109—into legislation, which amended portions of the Public Utilities Code and set July 1, 2002, as a deadline for any funds remaining in the DEAF Trust to be reverted to the General Fund in the State Treasury. Because DDTP employees are not state employees and thus cannot be paid with funds from the State Treasury, the DDTP essentially would become defunct as of July 1, 2002. In an effort not to disrupt program services, the CPUC's legal staff, in conjunction with the Legislature, developed Assembly Bill 1734, which has become law under Chapter 61, Statutes of 2002. This bill amends the Public Utilities Code to extend the deadline to July 1, 2003, for the transfer of funds in the DEAF Trust to the appropriate fund within the State Treasury. The legislation also concludes that the telecommunications services and equipment provided to deaf, disabled, and hearing-impaired individuals and their families are of such a highly specialized and technical nature that the necessary expert knowledge, ability, and experience are not available within the current state civil service system. Thus, it authorizes the CPUC to enter into contracts for the provision of telecommunications services and equipment in a manner that protects and enhances the current infrastructure and delivery of services while maintaining long-term continuity of program administration. To do so, the CPUC may contract with entities or persons that have the necessary expert knowledge, ability, and experience to provide, manage, or operate the program's current services.

RECOMMENDATIONS TO IMPROVE COLLECTION OF SURCHARGES

Because the DDTP's current structure has been extended until July 1, 2003, we recommend that it take the following actions in order to track carrier remittance practices and payments better and to ensure that the DEAF Trust is receiving all the funds it is owed:

- Work with the CPUC to develop and maintain a reliable record of carriers that are providing services subject to the surcharge.
- Track the payment history of each carrier and monitor these records to identify delinquent carriers.
- Regularly notify delinquent carriers and the CPUC of all past-due amounts.

The CPUC ultimately will be responsible for ensuring that it collects all surcharges. To ensure that it does so, the CPUC will have to do the following:

- Develop and maintain a reliable record of active carriers that are providing services subject to the surcharge.
- Rewrite its transmittal form instructions in explicit detail, ensuring consistency among carriers.
- Track the payment history of each carrier and monitor these records to identify carriers that are not remitting surcharges as required.
- Enforce late-payment penalties.
- Require all active carriers that do not submit surcharge revenues to certify that they do not provide services subject to the surcharge.
- Conduct periodic remittance audits of DDTP surcharge revenues.

RECOMMENDATIONS TO ENSURE PRUDENT USE OF PROGRAM FUNDS

We recommend that the DDTP do the following to ensure the prudent use of public funds in furtherance of the program's mission:

- Adhere to its newly revised internal control procedures that define allowable expenses.
- Follow its new procedure to report parking fringe benefits as taxable income on employees' W-2 forms.
- Develop additional procedures to prevent personal use of cars among employees with DDTP-leased vehicles. For example, the DDTP should label all its leased vehicles and require employees to maintain daily log records of miles driven. When personal use occurs, the DDTP should report it as a taxable fringe benefit to the proper taxation authorities.
- Ensure that all future contracts have established performance standards as well as provisions to collect damages from non-performing contractors.

Whether the CPUC contracts out for all or some of the day-to-day provision of program services, to ensure that program funds are expended prudently and in accordance with the program's mission, the CPUC should:

- Include specific provisions in its contracts that require contractors to comply with state laws, regulations, and policies related to reimbursable expenses.
- Include specific performance standards in its contracts and monitor whether the contractors are meeting those standards.
- Include provisions in its contracts that will allow it to collect damages from nonperforming contractors.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE
State Auditor

Date: July 11, 2002

Staff: Ann K. Campbell, CFE, Audit Principal
Robert A. Hughes
Leighton A. Burrey
Pamela M. Immordino

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APPENDIX A

Remittance Frequency of Carriers for 2000

This appendix shows the 408 carriers who remitted at least one payment for 2000. It is sorted in numerical order by the carrier's certificate of public convenience and necessity (CPCN) number. An 'X' represents that the carrier made a payment for that month. A blank represents a non-payment for that month.

TABLE A.1

Surcharge Transaction History 2000

CPCN	Carrier	Jan 2000	Feb 2000	Mar 2000	Apr 2000	May 2000	June 2000	July 2000	Aug 2000	Sep 2000	Oct 2000	Nov 2000	Dec 2000
1000	Ducor Telephone Company									X			
1001	Pacific Bell Telephone Company	X	X	X	X	X	X	X	X	X	X	X	X
1002	Verizon California Inc.	X	X	X	X	X	X	X	X	X	X	X	X
1004	Calaveras Telephone Company	X		X	X	X	X	X	X	X	X	X	X
1006	Cal-Ore Telephone Company	X		X	X	X	X	X	X	X	X	X	X
1007	Ducor Telephone Company	X		X	X	X	X	X	X		X	X	X
1008	Evans Telephone Company	X		X	X	X	X	X	X	X	X	X	X
1009	Foresthill Telephone Company, Inc.	X		X	X	X	X	X	X	X	X	X	
1010	Happy Valley Telephone Co.	X		X	X	X	X		X	X	X	X	X
1011	Hornitos Telephone Company	X		X	X	X	X	X	X	X	X	X	X
1012	Kerman Telephone Company		X	X	X	X	X	X	X	X	X	X	X
1013	Pinnacles Telephone Company	X	X	X	X	X	X	X	X	X	X	X	X
1014	The Ponderosa Telephone Company		X	X	X	X	X	X	X	X	X	X	X
1015	Roseville Telephone Company		X	X	X	X	X	X	X	X	X	X	X
1016	Sierra Telephone Company, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
1017	The Siskiyou Telephone Company	X		X	X	X	X	X	X	X	X	X	X
1019	The Volcano Telephone Company	X	X	X	X	X	X	X	X	X	X	X	X
1020	Verizon West Coast Inc.		X	X	X	X	X	X	X	X	X	X	X
1021	Winterhaven Telephone Company	X		X	X	X	X	X	X	X	X	X	
1022	Centurytel of Eastern Oregon, Inc.		X	X	X		X			X		X	X
1023	Citizens Telecoms. Co. of Tuolumne			X	X	X	X	X	X	X	X	X	X
1024	Citizens Telecoms. Co. of CA, Inc.			X	X	X	X		X	X	X	X	X
1025	Citizens Telecoms. Co. of Golden State			X	X	X	X	X	X	X	X	X	X
2004	Cal-Autofone						X						X
2029	Madera Radio Dispatch		X	X	X	X	X	X	X	X	X	X	X
2048	Radio Electronic Products Corp.						X						X
2101	Fresno Mobile Radio Inc.		X	X	X	X	X	X	X	X	X	X	X
2147	Access Paging Company, Inc.						X	X	X	X	X	X	X
2151	Regionet Wireless License, LLC		X	X	X	X	X	X	X	X	X	X	X
2696	Comcast Telecommunications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
3001	Cellco Partnership		X	X	X	X	X	X	X	X	X	X	X
3002	GTE Mobilnet of CA, Ltd. Ptnrshp.	X	X	X	X	X	X	X	X	X	X	X	X
3003	Los Angeles SMSA Limited Partnership	X	X	X	X	X	X	X	X	X	X	X	X
3004	Sacramento Valley Ltd. Partnership		X	X	X	X	X	X	X	X	X	X	X
3005	Fresno MSA Ltd. Partnership		X	X	X	X	X	X	X	X	X	X	X
3007	Bay Area Cellular Telephone Company	X	X	X	X	X	X	X	X	X	X	X	X
3009	AB Cellular Holding, LLC	X	X	X	X	X	X	X	X	X	X	X	X
3010	AT&T Wireless Services of CA, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
3011	GTE Mobilnet of Santa Barbara Limited Partnership		X	X	X	X	X	X	X	X	X	X	X
3013	Yuba City Cellular Telephone Co.	X		X	X	X	X	X	X	X	X	X	X
3014	Visalia Cellular Telephone Company	X		X	X	X	X	X	X	X	X	X	X
3015	Santa Barbara Cellular	X		X	X	X	X	X	X	X	X	X	X
3016	Napa Cellular Telephone Company		X	X	X	X	X	X	X	X	X	X	X
3017	Bakersfield Cellular LLC	X	X	X	X	X	X	X	X	X	X	X	X
3018	Salinas Cellular Telephone Company		X	X	X	X	X	X	X	X	X	X	X
3019	Santa Cruz Cellular Telephone, Inc.	X	X	X	X	X	X	X	X	X	X	X	X

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3020	Redding Cellular Partnership	X	X	X	X	X	X	X	X	X	X	X	X
3021	Cagal Cellular Comms. Corp.	X	X	X	X	X	X	X	X	X	X	X	X
3024	Mountain Cellular	X	X	X	X	X	X	X	X	X	X	X	X
3025	WWC License L.L.C.								X	X	X	X	X
3027	Centennial Communications	X	X	X	X	X	X	X	X	X	X	X	
3028	California RSA No. 3 Ltd. Partnership	X	X		X	X	X	X	X	X	X	X	X
3029	Verizon Wireless, LLC	X	X	X	X	X	X		X	X			X
3032	Modoc RSA Limited Partnership	X	X	X	X	X	X	X	X	X	X	X	X
3033	Nevada County Cellular Corporation	X	X	X	X	X	X	X	X	X	X	X	X
3036	Cal-One Cellular L.P.	X	X	X	X	X	X	X	X	X	X	X	X
3037	Dobson Cellular Systems, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
3038	California RSA No. 4 Ltd. Partnership	X	X	X	X	X	X	X	X	X	X	X	X
3043	U.S. Cellular	X	X	X	X	X	X	X	X	X	X		X
3044	SLO Cellular Inc.	X	X	X	X	X	X	X	X	X	X	X	X
3047	Dobson Cellular of Imperial, Inc.	X											
3048	GTE Mobilnet of San Diego, Inc.			X	X	X	X		X	X	X	X	X
3050	Price Communications Cellular Inc.	X	X	X		X	X	X	X	X	X	X	X
3060	Cingular Wireless	X	X	X	X	X	X	X	X	X	X	X	X
3062	WirelessCo, L.P.	X	X	X	X	X	X	X	X	X	X	X	X
3064	Cox Communications PCS, L.P.	X	X	X	X	X	X	X	X	X	X	X	X
3066	Nextel of California, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
3067	Central Wireless Partnership	X	X	X	X	X	X	X	X	X	X	X	X
3071	West Coast PCS, LLC	X	X	X	X	X	X	X	X	X		X	X
3891	Concert Comm Sales, LLC												X
4003	Call America, Inc.	X	X	X	X	X	X	X	X	X	X		X
4004	Cellular Service, Inc.	X	X	X	X	X	X	X	X	X	X		X
4025	Motorola Cellular Service, Inc.	X	X	X									
4038	Nova Cellular West, Inc.	X	X	X	X	X	X	X	X	X	X	X	
4042	My Store, Inc.	X	X	X	X								
4043	Robo Wireless Accounting	X	X	X	X	X	X	X	X	X		X	X
4048	The Phone Company Franchising Corp.	X	X	X	X	X	X	X	X	X	X	X	X
4049	Nationwide Cellular Svc. Inc.		X		X	X	X	X	X	X	X	X	X
4055	Southern California Telephone Co.	X	X	X	X	X	X	X	X	X	X		X
4062	Prime/Matrix, Inc.	X	X	X									
4075	General Mobile Cellular	X	X	X		X							
4077	Action Cellular Rent-a-Phone		X	X	X	X	X	X	X	X	X	X	X
4081	Wireless Communication Interactive Inc.			X	X	X	X	X					
4087	Digital Cellular Inc.	X	X	X	X	X	X	X	X	X	X	X	X
4088	Personal Cellular Services	X	X	X	X	X	X	X	X	X	X	X	X
4093	Atlantic Cellular	X	X		X	X	X		X	X	X	X	X
4111	Pay-Less Cellular Inc.	X	X	X	X	X	X	X	X	X	X	X	X
4117	World Wide Cellular Inc.	X	X	X		X	X		X	X	X	X	X
4162	Prime/Matrix, Inc.	X	X	X	X	X	X	X	X	X	X		X
4213	Los Angeles Wireless, Inc.	X	X	X	X	X	X	X	X	X	X	X	
4216	America One Communications, Inc.				X	X	X	X	X	X	X		
4236	Choice Communications	X	X	X	X	X	X	X	X	X	X	X	X
4260	Everything Wireless, L.L.C.	X	X	X	X	X	X	X	X	X	X	X	X
4269	AT&T Wireless Data, Inc.		X	X	X	X				X		X	
4277	Fisher Wireless Services, Inc.	X	X	X	X	X	X	X	X	X		X	
4295	Highway Master Corp	X	X	X		X			X	X	X	X	X
4300	TRAQ Wireless, Inc.			X	X	X	X	X	X	X	X	X	X
4305	Pacific Wireless Technologies, Inc.										X	X	X

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5002	AT&T Communications of California	X	X	X	X	X	X	X	X	X	X	X	X
5005	Global Crossing Telecommunications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5011	MCI WorldCom Network Services, Inc.	X	X	X	X	X		X	X	X	X	X	X
5047	Extelcom, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5055	GST Call America	X	X	X						X	X	X	X
5056	Cable & Wireless USA, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5109	Bay Area Teleport	X	X	X	X	X	X	X		X	X	X	X
5112	Sprint Communications Company, L.P.	X	X	X	X	X	X	X	X	X	X	X	X
5113	American Comms. Enter. (Futurtek)	X	X	X	X	X	X	X			X		
5130	Teleconnect Company	X	X	X	X	X	X	X	X	X	X	X	X
5145	GTE Mobilnet of Santa Barbara	X											
5164	Telecommunications Int'l. (ZCZC LA)	X	X			X		X	X	X	X	X	X
5168	Intellicall Operator Services, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5172	Metropolitan Fiber Systems of CA, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5173	Incomnet Communications Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5186	USLD Communications Corp	X	X	X	X	X	X	X	X	X	X	X	X
5196	Excel Telecommunications	X	X	X	X	X	X	X	X	X	X	X	X
5208	Coast International, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5216	Insinc Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5223	Phoenix Network, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5226	One Call Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5227	Matrix Telecom, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5229	Affinity Network Incorporated	X	X	X	X	X	X	X					
5230	Teltrust Communications Services, Inc.				X	X	X						
5231	US Telecom, Inc.	X			X	X			X	X		X	
5233	Working Assets Funding Service, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5234	US Telecom DbA Sprint Services		X	X			X				X		X
5238	Inter-tel NetSolutions, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5242	Mail.com Business Messaging Services, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5244	Ameritel/Amerivision Comms Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5247	Stenocall (Lubbock Radio Paging Svc.)											X	
5248	Arrival Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5249	Affinity Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5251	NOS Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5253	MCI Metro Access Transmission Services	X	X	X	X	X	X	X	X	X	X	X	X
5256	Shared Communications Services, Inc.	X	X	X	X	X	X		X	X	X	X	X
5259	World Wide Communications Inc.	X	X	X	X	X	X						
5266	Pac-West Telecomm, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5268	Norstan Network Services, Inc.	X	X	X		X	X	X	X	X	X	X	X
5270	Qwest Communications Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5275	Trans National Comms. Inc	X	X	X	X	X	X	X	X				
5276	Convergent Communications								X	X	X	X	
5279	Saladin Westco	X	X	X	X	X	X	X	X	X	X	X	X
5280	Network Plus Inc.		X	X	X	X	X	X	X	X	X	X	
5287	US Wats, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5289	Tel-Save, Inc.							X	X	X			X
5298	Linq Up America (Los Angeles), Inc.						X						
5303	Worldtel Services, Inc.	X	X	X		X	X	X	X	X	X	X	X
5314	Linkatel of California, L.P.	X	X	X	X	X	X		X	X	X	X	X
5319	Hertz Technologies, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5327	International Exchange Comm., Inc.	X	X	X	X	X	X			X	X	X	X
5329	National Accounts Inc.	X	X	X	X	X	X	X	X	X	X	X	X

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5335	Qwest Communications Corp	X	X	X	X	X		X	X	X	X	X	X
5341	National Comtel Network Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5357	Buehner-Fry, Inc.	X	X	X	X	X	X	X	X			X	X
5358	Time Warner Telecom of CA, L.P.	X	X	X	X	X	X	X	X	X	X	X	X
5359	Lightyear Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5364	Business Discount Plan Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5370	Premiere Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5371	GST Pacific Lightwave, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5372	Nationwide Cellular Service Inc.	X		X									
5373	GST Net, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5376	RSL Com USA, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5377	Electric Lightwave Inc.	X	X	X	X	X	X		X	X	X	X	X
5378	MCI WorldCom Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5381	The Furst Group, Inc.	X	X	X	X	X	X		X	X	X	X	
5384	Vartec Telecom Inc.	X	X	X		X	X	X		X	X	X	X
5385	Dialink Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5389	TCG San Diego	X		X	X	X	X	X	X	X	X	X	X
5393	Broadwing Telecommunications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5402	Equalnet Corporation									X			X
5403	TTI National, Inc.	X	X	X	X	X		X	X	X	X	X	X
5406	ICG Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5419	Brooks Fiber Comms. of Sacramento	X	X	X	X	X	X	X	X	X	X	X	X
5420	Brooks Fiber Comms. of San Jose	X	X	X	X	X	X	X	X	X	X	X	X
5426	BLT Technologies, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5427	IDT America, Corp.	X	X	X	X	X	X	X	X	X	X	X	X
5429	Citizens Telecommunications Company	X	X	X	X	X	X	X	X	X	X	X	X
5431	USV Telemanagement, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5433	Access Network Services, Inc.			X			X	X	X	X	X	X	X
5434	Nosva, Limited Partnership	X	X	X	X	X	X	X	X	X	X	X	X
5438	Inacom Communications Inc.	X	X	X									
5440	AS Telecommunications, Inc.		X										X
5441	Integrated Teleservices Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5442	Q.H. Communications, Inc.	X	X	X	X	X		X	X	X	X	X	
5443	San Carlos Telecom Inc.	X	X	X	X								X
5448	LDM Systems	X	X	X	X	X		X	X	X	X		
5454	TCG San Francisco	X	X	X	X	X	X	X	X	X	X	X	X
5456	Communications Brokers & Consultants	X	X	X	X	X	X	X	X	X	X	X	X
5458	Fiberlink Communications Corp	X	X	X	X	X	X	X	X	X	X	X	X
5462	TCG Los Angeles	X	X	X	X	X	X	X	X	X	X	X	X
5464	Home Owners Long Distance, Inc.	X	X	X		X	X	X	X	X	X	X	X
5469	GST Telecom California, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5472	Cybernet Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5477	Genesis Communications Int'l Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5484	T-Netix, Inc.					X							
5485	USLD Communications Inc.	X	X	X			X			X			X
5488	Wiebe Telecommunications, Inc.						X	X	X	X		X	
5491	Alliance Net, Inc.	X	X			X				X			X
5494	Verizon Select Services, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5509	Fibertel Inc.	X	X										
5513	Primus Telecommunications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5519	Worldnet Communications Services, Inc.	X	X	X	X	X	X		X	X	X	X	X
5526	eMeritus Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X

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5528	Federal Transtel, Inc.												X
5531	Winstar Wireless Inc.	X	X	X	X	X	X	X	X	X	X		X
5532	Computer Telephone Corp.				X			X	X	X	X	X	X
5534	CCI Communications Specialists Inc.						X						X
5535	Talk.com Holding Corp.	X	X	X		X	X	X	X	X	X	X	X
5544	Brooks Fiber Comms. of Bakersfield	X	X	X	X	X	X	X	X	X	X	X	X
5545	Brooks Fiber Comms. of Fresno, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5546	Brooks Fiber Comms. of Stockton, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5549	AT&T Broadband Phone of CA	X	X	X		X	X	X	X	X		X	X
5553	Nextlink of California, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5560	Business Telecom, Inc.	X	X		X	X	X	X	X	X		X	X
5586	Time Warner Connect	X	X	X	X	X	X	X	X	X	X	X	X
5594	Network Enhanced Technologies, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5602	Easton Telecom Services Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5607	California Catalog & Technology, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5608	American Telco, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5617	Integrated Telemanagement Services	X	X	X	X		X	X	X	X	X	X	X
5619	Qwest Interprise America, Inc.	X	X										
5621	Comdata Telecommunications Svcs. Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5624	Atlas Communication, Ltd.	X	X	X	X	X	X	X	X	X	X	X	X
5630	Yestel, Inc.						X	X	X	X	X	X	X
5632	North American Communications Control	X	X	X	X	X	X	X	X	X	X	X	X
5633	TCAST Communications, Inc.												X
5635	Touch 1 Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5639	Business Options Inc.	X	X	X		X	X	X	X				
5641	Preferred Carrier Services, Inc.	X	X										
5646	Advanced Telecommunication Network, Inc.		X	X	X	X			X	X			
5655	Global Crossing Telemanagement Inc	X	X	X	X	X	X	X	X	X	X	X	X
5658	Nynex Long Distance	X	X	X							X	X	X
5670	Corporate Services Telcom Sprint	X	X	X		X	X	X	X	X	X	X	X
5671	Lightyear Telecommunications LLC	X	X	X	X	X	X	X	X	X	X	X	X
5673	PNG Telecommunications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5674	Norlight, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5679	Viatel Services, Inc.		X	X				X			X		
5683	Intercontinental Communications Group, Inc.												X
5684	Cox California Telcom II, LLC	X	X	X	X	X	X	X	X	X	X	X	X
5685	Global Crossing Local Services, Inc.	X	X		X	X	X	X	X	X	X	X	X
5686	A.R.C. Networks, Inc.		X	X	X	X	X	X	X	X	X	X	X
5689	GTE Mobilnet of San Diego Inc.	X	X										
5696	Least Cost Routing, Inc.	X	X	X		X	X		X	X	X	X	X
5701	BT North America Inc.			X	X	X			X	X	X	X	X
5702	Firstworld Anaheim	X	X	X	X	X	X	X	X	X	X	X	
5707	Cincinnati Bell Long Distance, Inc.	X	X	X	X	X	X	X	X	X	X		X
5712	McLeod USA Telecommunications Svcs Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5713	Intermedia Communications Inc.			X			X	X	X	X	X	X	X
5717	PT-1 Communications, Inc.	X	X	X		X		X	X	X	X	X	X
5721	U.S. Telepacific Corp.	X	X	X	X		X	X	X		X	X	X
5724	I-Link Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5725	Empire One Telecommunications, Inc.	X	X	X	X		X	X	X	X	X	X	X
5731	Sasscom, Inc.	X	X	X	X	X							
5732	Bell Atlantic Telecommunications, Inc.	X	X	X	X		X	X	X	X	X	X	X
5735	Dial Long Distance, Inc.	X	X	X	X	X	X	X	X	X	X	X	X

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5739	Caprock Communications Corp.							X	X	X	X	X	X
5740	World Network Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5744	Cimco Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5748	Telscape USA, Inc.					X	X	X	X	X	X	X	X
5760	ITC Deltacom Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5765	Claricom Networks Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5773	U.S. Republic Communications, Inc.	X	X	X	X								
5776	Custom Network Solutions, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5777	American Long Lines, Inc.	X	X	X	X		X	X	X	X	X	X	X
5785	RSL Com Prime Call, Inc.	X	X	X	X	X	X						
5786	Legacy Long Distance International, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5791	Association Administrators, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5793	Diversified Solutions, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5797	Optel (California) Telecomm, Inc.						X						X
5798	U S West Long Distance, Inc.	X	X	X	X			X	X	X	X	X	X
5803	Teligent Services, LLC	X	X	X	X	X	X	X	X	X	X	X	X
5809	TGEC Communications Co., LLC										X	X	X
5817	Roseville Long Distance	X	X	X	X	X	X	X	X	X		X	X
5818	Integrated Communications Consultants, Inc.	X	X	X	X	X	X				X	X	X
5831	Omniplex Communications Group, LLC	X	X	X	X	X	X	X	X	X	X	X	X
5832	Intouch America, Inc.	X	X	X	X		X	X	X	X	X	X	X
5837	Long Distance of Michigan, Inc.	X	X		X	X	X	X	X	X	X	X	X
5838	Premysis Liquid Crystal Display (TLMGT)	X	X	X	X	X	X	X	X	X	X	X	X
5839	Opentel Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5841	Speer Virtual Media, Ltd.			X			X						X
5842	Stormtel, Inc.	X	X	X	X	X							
5844	Real Telephone Company												X
5845	Efficy Group, Inc.	X	X	X	X	X	X	X	X				
5851	Univance Telecommunications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5852	RCN Long Distance												X
5853	Cypress Telecommunications Corp.	X	X	X	X	X		X	X	X	X	X	X
5859	Mpower Communications Corp	X	X	X	X	X	X	X	X	X	X	X	
5867	EZ Phone	X	X	X	X		X	X	X	X	X	X	X
5869	Star*Value												X
5873	International Thinklink Corporation	X	X	X	X	X	X	X	X	X	X	X	X
5874	Convergent Comm. Services, Inc.												X
5880	Direct Net Telecommunications		X										
5881	Foxtel, Inc.	X	X	X	X		X	X	X	X	X	X	X
5882	Access Point, Inc.											X	X
5888	USBG, Inc.	X	X	X	X	X	X						
5892	Freedomstarr Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5896	Network One (CRG International)	X	X	X	X	X		X	X	X	X	X	X
5912	New Century Telecom, Inc.						X	X	X	X	X	X	X
5922	Focal Communications Co. of Calif.	X	X	X	X	X	X	X	X	X	X	X	X
5928	Tri-M Communications Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5934	Allegiance Telecom of California, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5935	Quantumshift	X	X	X	X	X	X	X	X	X	X	X	X
5938	Savecom International USA, Inc.	X		X	X	X	X	X	X	X	X	X	X
5941	Level 3 Communications, LLC	X	X	X	X	X	X	X	X	X	X	X	X
5942	NTT America, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5943	Comm South Companies				X	X	X	X	X	X	X	X	X
5952	Infotech Telecomms. and Network Inc.												X

CPCN	Carrier	Jan 2000	Feb 2000	Mar 2000	Apr 2000	May 2000	June 2000	July 2000	Aug 2000	Sep 2000	Oct 2000	Nov 2000	Dec 2000
5953	Net.World	X	X	X	X	X	X	X	X	X		X	X
5955	Airnex Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5974	Calls For Less	X											
5979	Buyers United International, Inc.	X		X						X		X	X
5982	Star Direct Telecom, Inc.	X	X		X			X	X	X	X	X	X
5983	Public Interest Network Services Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5988	Telecarrier Services, Inc.		X	X	X	X	X	X	X	X			
5989	NXLD Company	X	X	X	X	X	X	X	X	X	X	X	X
5993	Communication Network Services, L.L.C.		X	X	X	X	X	X	X	X	X	X	
5996	PNV.net, Inc.	X	X		X	X	X	X	X	X		X	
6003	Omnicall, Inc.	X	X	X	X	X	X			X	X	X	X
6008	Choctaw Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6010	American Farm Bureau Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6016	RCN Telecom Services of California Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6019	New York Telcorp (Telcorp, Ltd.)	X	X	X	X	X	X	X	X	X	X	X	X
6022	Impulse Communication, Inc.										X	X	
6026	Global Uni-Tel Communications	X	X	X		X	X	X	X	X	X	X	X
6027	Z-Tel Communications, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6029	Single Billing Services, Inc.	X	X	X	X	X	X	X	X			X	X
6039	Clearworld Communications Corp.	X	X	X		X	X	X	X	X	X	X	X
6047	U.S. Republic Communications, Inc.	X	X	X	X						X	X	X
6050	Connect America, Inc.				X		X	X					
6056	Wholesale Telecom, Inc.	X		X	X	X	X	X	X	X	X		
6060	Rhondacom, Inc.	X		X	X	X	X	X	X	X	X	X	X
6061	Big Planet, Inc.			X	X	X	X	X	X	X	X	X	X
6062	Corecomm of California						X	X	X	X			X
6063	Net Stream, Inc.	X	X	X	X	X	X		X	X	X	X	X
6065	01 Communications	X	X	X	X	X	X	X	X	X	X	X	X
6067	Network Billing Systems, CLC						X						X
6078	USC Telecom, Inc.					X		X	X	X	X	X	X
6083	Advanced Telecom Group, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6089	Pannon Telecom, Inc.	X	X	X	X	X	X	X	X	X			X
6092	California Network Management	X	X	X	X				X			X	X
6093	Globalcom Inc.	X	X	X	X	X	X	X	X	X		X	X
6097	Paetec Communications	X	X	X	X	X	X	X		X	X	X	X
6102	Highspeed Communications of CA, LLC											X	X
6104	Access One, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6106	Network International, LLC	X	X	X	X		X	X	X	X	X		
6111	Net2000 Communications Services, Inc.	X	X	X	X		X	X	X	X	X	X	X
6117	Telecomm Cooperative Network, Inc.										X	X	X
6129	Onestar Long Distance, Inc.												X
6132	Compass Telecommunications, Inc.						X						X
6137	Glyphics Communications, Inc.	X	X	X			X						
6142	GTC Telecom	X	X	X	X	X	X	X	X	X	X	X	X
6144	Gates Communications		X		X	X	X	X	X	X	X	X	X
6146	Williams Communications, LLC	X	X	X	X	X	X	X	X	X	X	X	X
6161	U.S. Telesat Communications Group				X		X						
6165	United States Advanced Network, Inc.	X	X	X	X		X	X	X	X	X	X	X
6169	DSL.net Communications, LLC	X	X	X	X	X	X	X	X	X	X	X	X
6180	RDST, Inc.		X										
6184	Seren Innovations, Inc.					X	X	X	X	X	X	X	X
6185	Telscape (Pointe Local Exchange Co)				X	X	X	X	X	X		X	X

CPCN	Carrier	Jan 2000	Feb 2000	Mar 2000	Apr 2000	May 2000	June 2000	July 2000	Aug 2000	Sep 2000	Oct 2000	Nov 2000	Dec 2000
6188	Media.net Communications, Inc.								X		X	X	X
6211	International Exchange Networks, Ltd.	X	X	X	X	X	X	X	X	X	X	X	X
6223	Affordable Voice Communications Inc.						X	X	X	X	X	X	
6225	Quick-Tel, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6226	New Edge Networks, Inc.						X						X
6231	Communications Express, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6232	Adelphia Telecommunications, Inc.						X						X
6234	Telseon Carrier Services, Inc.												X
6237	Universal Access, Inc.		X	X	X	X	X	X	X	X	X		X
6242	Accessline LD Services, Inc.			X	X				X	X	X	X	X
6251	Single Billing Services, Inc.										X		
6255	Telemangement Services, Inc.		X	X		X	X	X	X	X	X	X	X
6256	P.D.S., Inc.	X	X	X	X								
6265	Trans National International Inc.	X								X	X	X	X
6269	Mediatel Corporation	X	X	X	X								
6276	DPI Teleconnect, LLC									X	X	X	X
6279	Competitive Communications, Inc.					X	X		X	X	X		X
6290	United Communications Hub, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
6291	Hotel Connect Management, Inc.				X	X	X						
6303	Net Lojix Telecom, Inc.						X		X		X	X	X
6305	Essential.com, Inc.											X	X
6326	Broadband Office Communications, Inc.							X	X	X	X	X	X
6329	Northwestern Digital Company				X		X		X	X	X	X	X
6332	EZTel Network Services, Inc.											X	X
6342	ACN Communications Services, Inc.							X	X	X	X	X	X
6346	SBC Advanced Solutions, Inc.						X	X	X	X	X	X	X
6347	Promisevision Technology Inc.						X	X	X	X	X	X	X
6355	Telstra Incorporated	X	X	X	X	X	X	X				X	X
6370	Touch America, Inc.												X
6373	EAS Communication, Inc.							X	X	X	X	X	X
6375	Cybertel Communications Inc.						X	X	X	X	X	X	X
6383	USA Digital Communications, Inc.												X
6396	Big Zoo.com Corporation											X	X
6418	Zone Telecom, Inc.											X	X
6424	Norstar Communications, Inc.										X	X	X
6479	Radiant Telecom, Inc.											X	X
6486	Congee Communications Corp.											X	X
6508	Xtension Services, Inc.												X
6599	Pacific Telecom Management Group, Inc.									X			
6729	Competitive Communications, Inc.				X								
6917	Discount Network Services												X
7171	Pt 1 Communications						X				X		
	Destia Communications Services	X			X				X			X	
	Equality, Inc.	X	X	X					X		X	X	X
	Evercom Systems, Inc.	X	X	X	X	X				X		X	X
	Gateway Technology, Inc.												X
	Genesys Conferencing	X	X	X	X				X		X	X	X
	Hbs Billing Services Co.				X								X
	Integretel, Inc.	X		X	X				X			X	X
	Netifice Communications										X	X	X

Source: Surcharge Transaction History for 2000.

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APPENDIX B

Remittance Frequency of Carriers for 2001

This appendix shows the 361 carriers who remitted at least one payment for 2001. Carriers were required to remit payments only for September through December 2001, or the months after the surcharge rate was reinstated. It is sorted in numerical order by the carrier's certificate of public convenience and necessity (CPCN) number. An 'X' represents that the carrier made a payment for that month. A blank represents a nonpayment for that month.

TABLE B.1

Surcharge Transaction History 2001

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
1001	Pacific Bell Telephone Company									X	X	X	X
1002	Verizon California Inc.						X		X	X	X	X	X
1004	Calaveras Telephone Company									X	X	X	X
1006	Cal-Ore Telephone Company									X	X	X	X
1007	Ducor Telephone Company									X	X	X	X
1008	Evans Telephone Company												X
1009	Foresthill Telephone Company, Inc.								X	X	X	X	X
1010	Happy Valley Telephone Co.	X			X	X	X	X	X	X	X	X	X
1011	Hornitos Telephone Company	X	X							X	X	X	X
1012	Kerman Telephone Company									X	X	X	X
1013	Pinnacles Telephone Company							X	X	X	X	X	X
1014	The Ponderosa Telephone Company									X	X	X	X
1015	Roseville Telephone Company	X	X							X	X	X	X
1016	Sierra Telephone Company, Inc.									X	X	X	X
1017	The Siskiyou Telephone Company	X							X	X	X	X	X
1019	The Volcano Telephone Company								X	X	X	X	X
1020	Verizon West Coast Inc.	X	X		X	X	X				X	X	X
1021	Winterhaven Telephone Company	X	X								X	X	X
1022	Centurytel of Eastern Oregon, Inc.	X	X		X			X	X	X	X	X	
1023	Citizens Telecoms. Co. of Tuolumne										X	X	X
1024	Citizens Telecoms. Co. of CA, Inc.										X	X	X
1025	Citizens Telecoms. Co. of Golden State										X	X	X
2004	Cal-Autofone						X						X
2029	Madera Radio Dispatch	X							X	X	X	X	X
2048	Radio Electronic Products Corp.						X						X
2101	Fresno Mobile Radio Inc.									X	X	X	X
2151	Regionet Wireless License, LLC	X	X	X	X	X	X	X	X	X			
3001	Cellco Partnership									X	X	X	X
3002	GTE Mobilnet of CA, Ltd. Ptnrshp.	X	X	X				X		X	X	X	X
3003	Los Angeles SMSA Limited Partnership									X	X	X	X
3004	Sacramento Valley Ltd. Partnership									X	X	X	X
3005	Fresno MSA Ltd. Partnership	X	X	X				X		X	X	X	X
3007	Bay Area Cellular Telephone Company	X	X	X						X	X	X	X
3009	AB Cellular Holding, LLC									X	X	X	X
3010	AT&T Wireless Services of CA, Inc.									X	X	X	X
3011	GTE Mobilnet of Santa Barbara Limited Partnership	X	X	X				X		X	X	X	X
3013	Yuba City Cellular Telephone Co.									X	X	X	X
3014	Visalia Cellular Telephone Company									X	X	X	X
3015	Santa Barbara Cellular									X	X	X	X
3016	Napa Cellular Telephone Company	X	X	X						X	X	X	X
3017	Bakersfield Cellular LLC									X	X	X	X
3018	Salinas Cellular Telephone Company	X	X	X						X	X	X	X
3019	Santa Cruz Cellular Telephone, Inc.									X	X	X	X
3020	Redding Cellular Partnership									X	X	X	X

PCPN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
3021	Cagal Cellular Comms. Corp.	X	X	X						X	X	X	X
3024	Mountain Cellular	X								X	X	X	X
3025	WWC License L.L.C.	X								X	X	X	X
3028	California RSA No. 3 Ltd. Partnership	X								X	X	X	X
3029	Verizon Wireless, LLC	X	X	X				X		X		X	X
3032	Modoc RSA Limited Partnership									X		X	X
3033	Nevada County Cellular Corporation									X	X	X	X
3036	Cal-One Cellular L.P.									X	X	X	X
3037	Dobson Cellular Systems, Inc.									X	X	X	X
3038	California RSA No. 4 Ltd. Partnership	X	X	X				X		X		X	X
3043	U.S. Cellular	X	X	X	X	X	X	X			X	X	X
3044	SLO Cellular Inc.									X	X	X	X
3048	GTE Mobilnet of San Diego, Inc.									X	X	X	X
3050	Price Communications Cellular Inc.	X	X	X				X		X	X	X	X
3060	Cingular Wireless									X	X	X	X
3062	WirelessCo, L.P.	X	X							X	X	X	X
3064	Cox Communications PCS, L.P.	X								X	X	X	X
3066	Nextel of California, Inc.	X								X	X	X	X
3071	West Coast PCS, LLC	X								X	X	X	X
3074	AT&T Wireless PCS, LLC									X	X	X	X
3075	Edge Wireless, LLC						X			X	X	X	X
3076	Cricket Communications, Inc.											X	X
3891	Concert Comm Sales, LLC	X	X	X						X	X	X	X
4003	Call America, Inc.	X	X	X	X	X		X					
4004	Cellular Service, Inc.	X	X	X	X	X	X						
4038	Nova Cellular West, Inc.									X	X	X	X
4043	Robo Wireless Accounting	X	X	X							X	X	X
4049	Nationwide Cellular Svc. Inc.									X	X	X	X
4055	Southern California Telephone Co.	X	X	X	X	X							X
4077	Action Cellular Rent-a-Phone									X	X	X	X
4087	Digital Cellular Inc.	X								X	X	X	X
4093	Atlantic Cellular	X	X	X	X	X	X	X		X	X	X	X
4111	Pay-Less Cellular Inc.	X								X	X	X	X
4117	World Wide Cellular, Inc.	X											
4162	Prime/Matrix, Inc.	X	X	X	X	X	X	X		X	X	X	X
4236	Choice Communications									X	X	X	X
4260	Everything Wireless, L.L.C.	X								X	X	X	X
4269	AT&T Wireless Data, Inc.										X	X	X
4277	Fisher Wireless Services, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
4295	HighwayMaster Corp									X		X	X
4305	Pacific Wireless Technologies, Inc.	X	X	X	X	X	X	X	X	X	X	X	
4925	Track Communications, Inc.										X		
5002	AT&T Communications of California						X	X	X	X	X	X	X
5005	Global Crossing Telecommunications Inc.	X								X	X	X	X
5011	MCI WorldCom Network Services, Inc.									X	X	X	X
5047	Extelcom, Inc.									X	X	X	X
5056	Cable & Wireless USA, Inc.								X	X	X		X
5109	Bay Area Teleport	X								X	X	X	X
5112	Sprint Communications Company, L.P.			X						X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
5130	Teleconnect Company									X	X	X	X
5164	Telecommunications Int'l. (ZCZC LA)									X	X	X	X
5168	Intellicall Operator Services, Inc.	X								X	X	X	X
5172	Metropolitan Fiber Systems of CA, Inc.									X	X	X	X
5173	Incomnet Communications Corporation									X	X	X	X
5186	USLD Communications Corp									X	X	X	X
5196	Excel Telecommunications									X	X	X	X
5208	Coast International, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5216	Insinc Corporation	X								X	X	X	X
5223	Phoenix Network, Inc.									X	X	X	X
5226	One Call Communications, Inc.									X	X	X	X
5227	Matrix Telecom, Inc.									X	X	X	X
5229	Affinity Network Incorporated									X	X	X	X
5231	US Telecom, Inc.		X	X		X	X	X	X				
5233	Working Assets Funding Service, Inc.									X	X	X	X
5234	US Telecom Dba Sprint Services	X											
5238	Inter-tel NetSolutions, Inc.	X									X	X	X
5242	Mail.com Business Messaging Services, Inc.	X	X	X									
5244	Ameritel/Amerivision Comms Inc.	X								X	X	X	X
5248	Arrival Communications, Inc.										X	X	X
5249	Affinity Corporation	X											
5251	NOS Communications, Inc.									X	X	X	X
5253	MCI Metro Access Transmission Services									X	X	X	X
5254	Comtech Mobile Telephone Company									X	X	X	X
5256	Shared Communications Services, Inc.	X								X	X	X	X
5266	Pac-West Telecomm, Inc.									X	X	X	X
5268	Norstan Network Services, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5270	Qwest Communications Corporation									X		X	X
5279	Saladin Westco	X	X										
5280	Network Plus Inc.	X								X	X	X	X
5287	US Wats, Inc.	X								X	X	X	X
5303	Worldtel Services, Inc.									X	X	X	X
5314	Linkatel of California, L.P.	X								X	X	X	X
5319	Hertz Technologies, Inc.									X	X	X	
5329	National Accounts Inc.									X	X	X	X
5334	GE Business Productivity Solutions, Inc.									X	X	X	X
5335	Qwest Communications Corp									X	X	X	X
5341	National Comtel Network Inc.									X	X	X	X
5357	Buehner-Fry, Inc.									X	X	X	X
5358	Time Warner Telecom of CA, L.P.	X	X	X	X	X	X			X	X	X	X
5359	Lightyear Communications, Inc.									X	X	X	X
5364	Business Discount Plan Inc.									X		X	X
5370	Premiere Communications Inc.	X								X	X	X	X
5376	RSL Com USA, Inc.									X	X	X	X
5377	Electric Lightwave Inc.									X	X	X	X
5378	MCI WorldCom Communications, Inc.	X								X	X	X	X
5384	Vartec Telecom Inc.	X	X	X							X	X	X
5385	Dialink Corporation									X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
5393	Broadwing Telecommunications Inc.	X								X	X	X	X
5401	TTI Telecommunications Inc.									X	X	X	X
5403	TTI National, Inc.									X	X	X	X
5406	ICG Communications, Inc.									X	X		
5419	Brooks Fiber Comms. of Sacramento									X	X	X	X
5420	Brooks Fiber Comms. of San Jose									X	X	X	X
5426	BLT Technologies, Inc.									X	X		
5427	IDT America, Corp.	X											
5429	Citizens Telecommunications Company										X	X	X
5431	USV Telemanagement, Inc.									X	X		
5433	Access Network Services, Inc.									X	X	X	X
5434	Nosva, Limited Partnership									X	X	X	X
5437	Tele*Star Communications	X											
5440	AS Telecommunications, Inc.	X											
5441	Integrated Teleservices Inc.									X	X	X	X
5456	Communications Brokers & Consultants	X	X	X	X	X	X	X	X	X	X	X	X
5457	Communications Brokers & Consultants						X						
5458	Fiberlink Communications Corp									X	X	X	X
5477	Genesis Communications Int'l Inc.									X	X	X	X
5481	Corecomm California, Inc.										X	X	X
5485	USLD Communications Inc.									X	X	X	X
5491	Alliance Net, Inc.									X		X	X
5494	Verizon Select Services, Inc.	X					X				X	X	X
5499	Tremcom International									X	X	X	X
5513	Primus Telecommunications, Inc.									X	X	X	X
5519	Worldnet Communications Services, Inc.	X								X	X	X	X
5526	eMeritus Communications, Inc.									X	X	X	X
5532	Computer Telephone Corp.												X
5535	Talk.com Holding Corp.									X	X	X	X
5544	Brooks Fiber Comms. of Bakersfield									X	X	X	X
5545	Brooks Fiber Comms. of Fresno, Inc.									X	X	X	X
5546	Brooks Fiber Comms. of Stockton, Inc.									X	X	X	X
5549	AT&T Broadband Phone of CA	X	X	X	X	X	X			X	X	X	X
5553	Nextlink of California, Inc.									X	X	X	X
5560	Business Telecom, Inc.	X	X	X	X	X	X	X	X	X	X	X	X
5586	Time Warner Connect		X	X	X	X	X	X	X	X	X	X	X
5602	Easton Telecom Services Inc.									X	X	X	
5607	California Catalog & Technology, Inc.	X	X	X	X								
5608	American Telco, Inc.									X	X	X	X
5617	Integrated Telemanagement Services		X			X	X					X	X
5621	Comdata Telecommunications Svcs. Inc.									X	X	X	X
5624	Atlas Communication, Ltd.	X								X	X	X	X
5630	Yestel, Inc.												X
5632	North American Communications Control	X								X	X	X	X
5635	Touch 1 Communications Inc.	X						X	X	X	X	X	X
5655	Global Crossing Telemanagement Inc									X	X	X	X
5658	Nynex Long Distance							X	X	X		X	X
5670	Corporate Services Telcom Sprint									X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
5671	Lightyear Telecommunications LLC	X	X	X	X	X							
5673	PNG Telecommunications, Inc.	X	X							X	X	X	X
5674	Norlight, Inc.	X									X	X	X
5684	Cox California Telcom II, LLC							X	X	X	X	X	X
5685	Global Crossing Local Services, Inc.									X	X	X	X
5686	A.R.C. Networks, Inc.									X	X	X	X
5696	Least Cost Routing, Inc.									X	X	X	X
5699	Zenex Long Distance, Inc.									X	X	X	X
5701	BT North America Inc.									X	X	X	X
5712	McLeod USA Telecommunications Services Inc.										X	X	X
5713	Intermedia Communications Inc.									X	X	X	X
5721	U.S. Telepacific Corp.									X	X	X	X
5724	I-Link Communications Inc.									X	X	X	X
5725	Empire One Telecommunications, Inc.							X	X	X	X	X	X
5732	Bell Atlantic Telecommunications, Inc.							X	X	X	X	X	X
5735	Dial Long Distance, Inc.										X	X	X
5739	Caprock Communications Corp.										X	X	X
5740	World Network Communications Inc.									X	X	X	X
5744	Cimco Communications Inc.									X	X	X	X
5748	Telscape USA, Inc.											X	X
5757	Dancris Telecom, LLC												X
5760	ITC Deltacom Communications Inc.	X								X	X	X	X
5765	Claricom Networks Inc.	X								X	X	X	X
5776	Custom Network Solutions, Inc.	X								X	X	X	X
5777	American Long Lines, Inc.							X	X	X	X	X	X
5786	Legacy Long Distance International, Inc.							X	X	X	X	X	X
5791	Association Administrators, Inc.									X	X	X	X
5793	Diversified Solutions, Inc.									X	X	X	X
5797	Optel (California) Telecomm, Inc.						X						
5803	Teligent Services, LLC									X		X	
5814	Volcano Long Distance									X	X	X	X
5817	Roseville Long Distance	X								X	X	X	X
5830	Comcast Business Communications, Inc.							X	X	X	X	X	X
5832	Intouch America, Inc.											X	X
5837	Long Distance of Michigan, Inc.									X	X	X	X
5838	Premysis Liquid Crystal Display (TLMGT)	X	X				X			X	X	X	X
5839	Opentel Communications Inc.									X	X	X	X
5840	Bellsouth Long Distance, Inc. Corp.												X
5844	Real Telephone Company												X
5851	Univance Telecommunications, Inc.			X						X	X	X	X
5853	Cypress Telecommunications Corp.	X								X	X	X	X
5859	Mpower Communications Corp.	X								X	X	X	X
5867	EZ Phone										X	X	X
5874	Convergent Comm. Services, Inc.	X											
5881	Foxtel, Inc.							X	X	X	X	X	
5882	Access Point, Inc.									X	X	X	X
5889	United Services Telephone, LLC									X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
5892	Freedomstarr Communications, Inc.									X	X	X	X
5896	Network One (CRG International)									X	X	X	X
5912	New Century Telecom, Inc.							X	X	X			
5922	Focal Communications Co. of Calif.									X	X	X	X
5928	Tri-M Communications Inc.									X	X	X	X
5933	Interactive Services Network, Inc.												X
5934	Allegiance Telecom of California, Inc.									X	X	X	X
5935	Quantumshift	X								X	X	X	X
5938	Savecom International USA, Inc.	X								X	X	X	X
5941	Level 3 Communications, LLC	X								X	X	X	X
5942	NTT America, Inc.												X
5943	Comm South Companies	X								X			
5952	Infotech Telecomms. and Network Inc.												X
5953	Net.World									X	X	X	X
5955	Airnex Communications, Inc.	X								X	X	X	X
5969	Unity Communications (Network One Inc.)												X
5972	In Touch Communications, Inc.												X
5979	Buyers United International, Inc.	X	X	X		X	X					X	X
5982	Star Direct Telecom, Inc.	X											
5983	Public Interest Network Services Inc.	X								X	X	X	X
5984	KDD America, Inc.		X							X	X	X	X
5989	NXLD Company									X	X	X	X
6008	Choctaw Communications, Inc.	X	X	X									X
6010	American Farm Bureau Inc.	X								X	X	X	X
6016	RCN Telecom Services of California Inc.									X	X	X	X
6019	New York Telcorp (Telcorp, Ltd.)	X								X	X	X	X
6026	Global Uni-Tel Communications									X	X	X	X
6027	Z-Tel Communications, Inc.									X	X	X	X
6029	Single Billing Services, Inc.									X	X	X	X
6039	Clearworld Communications Corp.									X	X	X	X
6047	U.S. Republic Communications, Inc.	X								X	X		X
6050	Connect America, Inc.			X	X	X	X	X	X	X	X	X	X
6056	Wholesale Telecom, Inc.		X								X	X	X
6060	Rhondacom, Inc.	X	X										
6061	Big Planet, Inc.									X	X	X	X
6062	Corecomm of California	X								X			
6067	Network Billing Systems, CLC						X						X
6074	Dedicated Communications Corp.											X	
6083	Advanced Telcom Group, Inc.									X	X	X	X
6089	Pannon Telecom, Inc.												X
6092	California Network Management									X	X	X	X
6093	Globalcom Inc.									X	X	X	X
6097	Paetec Communications									X	X	X	X
6102	Highspeed Communications of CA, LLC							X	X	X	X	X	X
6104	Access One, Inc.										X	X	X
6111	Net2000 Communications Services, Inc.							X	X	X	X	X	X
6117	Telecommunications Cooperative Network, Inc.							X	X	X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
6126	Direct One, Inc.										X	X	X
6129	Onestar Long Distance, Inc.	X	X										
6138	Christian Telecom Network, LLC	X											
6142	GTC Telecom									X	X	X	X
6144	Gates Communications	X								X	X	X	X
6146	Williams Communications, LLC	X	X	X	X	X	X						X
6165	United States Advanced Network, Inc.							X	X	X	X	X	X
6180	RDST, Inc.							X					
6184	Seren Innovations, Inc.									X	X	X	X
6185	Telscape (Pointe Local Exchange Co)			X	X	X	X	X	X				
6188	Media.net Communications, Inc.									X	X	X	X
6196	PT-1 Long Distance, Inc.									X	X	X	X
6208	Ciera Network Systems, Inc.							X	X	X	X	X	X
6211	International Exchange Networks, Ltd.				X						X	X	X
6223	Affordable Voice Communications Inc.									X	X	X	X
6225	Quick-Tel, Inc.							X	X	X	X	X	X
6231	Communications Express, Inc.	X								X	X	X	X
6232	Adelphia Telecommunications, Inc.	X	X	X						X	X	X	X
6237	Universal Access, Inc.	X								X		X	X
6242	Accessline LD Services, Inc.	X								X	X	X	X
6248	Adelphia Business Solutions Operations, Inc.									X	X	X	X
6265	Trans National Communications International Inc.	X								X	X		X
6273	Enhanced Communications Group, LLC								X	X	X	X	X
6276	DPI Teleconnect, LLC	X								X	X	X	X
6279	Competitive Communications, Inc.	X	X	X	X	X	X	X		X	X	X	X
6284	Openpop.com, Inc.									X	X	X	X
6290	United Communications Hub, Inc.	X								X	X	X	X
6299	Western Integrated Networks of CA Operating, LLC												X
6303	Net Lojix Telecom, Inc.	X									X	X	X
6305	Essential.com, Inc.	X	X										
6306	Concert Communications Sales, LLC												X
6309	W2Com International, LLC												X
6329	Northwestern Digital Company									X	X	X	X
6332	EZTel Network Services, Inc.	X											
6333	Total Call International, Inc.										X	X	X
6342	ACN Communications Services, Inc.									X	X	X	X
6347	Promisevision Technology, Inc.									X	X	X	X
6354	American Fiber Network, Inc.									X	X	X	X
6355	Telstra Incorporated	X	X							X		X	X
6367	Telecents Communications, Inc.									X	X	X	X
6370	Touch America, Inc.									X	X	X	X
6396	Big Zoo.com Corporation									X	X	X	X
6418	Zone Telecom, Inc.									X	X	X	X
6419	Futur Telecom America, Inc.									X	X	X	X
6421	Eureka Telecom, LLC									X	X	X	X
6424	Norstar Communications, Inc.									X	X	X	X

CPCN	Carrier	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	June 2001	July 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
6435	Go Solo Technologies, Inc.										X	X	X
6438	Jirehcom, Inc.									X	X	X	X
6454	Verizon Advanced Data, Inc.									X			
6455	United States Telesis, Inc.												X
6460	Lockheed Martin Global Telecommunications Services, Inc.									X	X	X	X
6462	Telecom New Zealand Communications (USA) Limited									X	X		
6479	Radiant Telecom, Inc.	X											
6485	Sonix4U, Inc.							X		X	X	X	
6495	Closecall America, Inc.												X
6504	Siskiyou Long Distance Company								X	X	X	X	X
6508	Xtension Services, Inc.									X	X	X	X
6509	Caltel Long Distance									X	X	X	X
6513	Local Telecom Holdings										X	X	X
6517	Cal-Ore Long Distance									X	X	X	X
6521	Toledo Area Telecommunications Services, Inc.										X	X	X
6535	Pioneer Telecom, Inc.									X	X	X	X
6536	Telstar International, Inc.												X
6549	Reduced Rate Long Distance										X	X	X
6569	ACC Telecommunications, LLC											X	X
6589	Telscape Communications, Inc.										X		
6642	Easton Telecom Services, LLC												X
6647	C.F. Communications, LLC	X											
	Destia Communications Services	X											
	Evercom Systems, Inc.	X		X					X		X	X	X
	Gateway Technology, Inc.												X
	Genesys Conferencing	X								X	X	X	X
	Genuity Solutions, Inc.							X	X	X	X	X	X
	Genuity Telecom, Inc.						X	X	X	X	X	X	X
	Integretel, Inc.	X								X	X	X	X
	Merchant Wired Dbw Mw	X	X										
	Moving Bytes, Inc.											X	X
	Netifice Communications	X								X	X	X	X

Source: Surcharge Transaction History for 2001.

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Agency's comments provided as text only.

Public Utilities Commission
505 Van Ness Avenue
San Francisco , California 94102-3298

July 2, 2002

Elaine M. Howle*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle,

The California Public Utilities Commission (Commission) has reviewed the draft report, "Deaf and Disabled Telecommunications Program: Insufficient Monitoring of Surcharge Revenues Combined With Imprudent Use of Public Funds Leave Less Money Available for Program Services," received on June 26, 2002. Thank you for the opportunity to comment on the report.

The Commission appreciates the Bureau's in-depth review of the DDTP staff's operations and management of the Commission's programs. The report comes at an opportune time, as the state prepares for the DDTP's revenues to flow through the General Fund and the Commission contemplates corresponding changes in program administration.

The Commission's response to the report addresses both the recommendations to the DDTP as well as the recommendations to the Commission. The Commission regards the DDTP as an extension of the agency itself, though the Commission has not delegated governmental authority to the DDTP. The DDTP staff are not state employees, but the Commission has extended to DDTP employees the indemnification which attaches to state employees, and requires the DDTP to comply with state contracting rules and open meeting laws. The Commission annually reviews and approves the DDTP proposed budget, DDTP contract proposals and final contracts, and DDTP requests to add, augment, or change services the program provides. The Commission also responds to DDTP requests for budget augmentation, which result from changes to a contract or to services provided.

The Commission views the Bureau's report as an opportunity for the Commission to improve its oversight of the DDTP and its operations. As we state below, the Commission intends to implement all of the Bureau's recommendations. On the basis of the Bureau's findings, the Commission is considering immediate changes to the way the DDTP is managed. Future contracts for the DDTP and its services will provide a vehicle for more explicit controls over the DDTP operations and spending.

I acknowledge and accept the results of the audit. The Commission will be implementing your recommendations as described below:

* California State Auditor's comments begin on page 87.

RECOMMENDATIONS TO THE DDTP TO IMPROVE COLLECTION OF SURCHARGES

The audit report discussed three recommendations to the DDTP for improving the collection of surcharges:

- Work with the Commission to develop and maintain a reliable record of carriers providing services.
- Track and monitor payment history of carriers.
- Regularly notify delinquent carriers and the Commission of all past due amounts.

The Commission currently has procedures in place to address these recommendations. On October 1, 2001, funds for the California High Cost Fund A (CHCF-A), California High Cost Fund B (CHCF-B), California Teleconnect Fund (CTF) and the Universal Lifeline Telephone Service (ULTS) public programs were transferred from commercial trust funds to accounts in the state treasury. The Commission became responsible for tracking and monitoring the collection and remittance of surcharges for these public programs. The Commission maintains a database of carriers and their surcharge remittances for the CHCF-A, CHCF-B, CTF and the ULTS public programs. Over the past year, the Commission has been reviewing the carriers' remittances for the CHCF-B and CTF programs and has been successful in collecting over a million dollars in overdue surcharge remittances for these funds.

Because the funds in the DEAF Trust will be transferred to the state treasury in less than a year, the Commission plans to transition the remittance review responsibility from the DDTP staff to Commission staff within the next 90 to 180 days. By transitioning these responsibilities, the Bureau's recommendations regarding the tracking of payments and notification of delinquent carriers will be addressed and the recommendation regarding working with the Commission will be nullified.

RECOMMENDATIONS TO THE COMMISSION TO IMPROVE COLLECTION OF SURCHARGES

The audit report discussed six recommendations to the Commission for improving the collection of surcharges:

- Develop and maintain a reliable record of carriers that are providing services subject to the surcharge.
- Rewrite its transmittal form instructions in explicit detail, ensuring consistency among carriers.
- Track the payment history of each carrier and monitor these records to identify carriers that are not remitting surcharges as required.
- Enforce late-payment penalties.
- Require all active carriers that do not submit surcharge revenues to certify that they do not provide services subject to the surcharge.
- Conduct periodic remittance audits of DDTP surcharge revenues.

The Commission plans to adopt all of the Bureau's recommendation. Specifically, the Commission will review and update its current database of active carriers. In addition, the

Commission will undertake a formal proceeding to consider periodic certification renewal requirements.

The Commission will rewrite its transmittal form instructions in explicit detail. The updated instructions will be posted on the Commission's web site.

The Commission will work with the Bank of America to set up a lock box account so as to obtain daily deposit statements from the DEAF Trust. The Commission will compare the daily deposits with the required remittance amounts to ensure that carriers are remitting the correct amount to the DEAF Trust. The Commission successfully uses these procedures currently to review remittances for its other public programs.

The Commission will send a letter to all carriers reminding them of late payment penalties. In addition, the Commission will take responsibility for sending delinquent carriers a late payment letter and following up with those carriers who do not include appropriate penalty fees in their payments. Further, the Commission is in the process of automating its remittance database for its other public programs to routinely create reminder letters to send to carriers who are delinquent in remitting surcharges.

The Commission will undertake a formal proceeding to consider certification requirements and associated enforcement penalties in order to enforce the requirement that all active carriers that do not submit surcharge revenues must certify that they do not provide services subject to the surcharge.

The 2002-2003 DDTP budget includes funding for a compliance and financial audit, which will include an audit of past and future surcharge remittances.

RECOMMENDATIONS TO THE DDTP TO ENSURE PRUDENT USE OF PROGRAM FUNDS

The audit report discussed four recommendations to the DDTP to ensure prudent use of program funds:

- Adhere to its newly revised internal control procedures defining allowable expenses.
- Follow its new procedure to report parking fringe benefits as taxable income on employees W-2 forms.
- Develop additional procedures to prevent personal use of cars among employees with DDTP-leased vehicles.
- Ensure that all future contracts have established performance standards as well as provisions to collect damages from non-performing contractors.

To ensure the DDTP's compliance with these recommendations, the Commission will oversee program expenses and direct the DDTP staff to apply procedures to ensure prudent use of program funds consistent with the audit.

RECOMMENDATIONS TO THE COMMISSION TO ENSURE PRUDENT USE OF PROGRAM FUNDS

The audit report discussed three recommendations to the Commission to ensure prudent use of program funds:

- Include specific provisions in its contracts that require contractors to comply with state laws, regulations, and policies related to reimbursable expenses.
- Include specific performance standards in its contracts and monitor whether the contractors are meeting those standards.
- Include provisions in its contracts that will allow it to collect damages from non-performing contractors.

The Commission plans to adopt all of the Bureau's recommendation. The Commission will work with its contracts office and the Department of General Services to ensure compliance with state contracting guidelines throughout the life of each contract. A contract manager will be assigned to monitor the performance of each contractor. Current contracts for other public programs include time schedules with requirements for a monthly status report. Contractors are expected to comply with the time schedule. Since October 2001, the Commission has successfully and compliantly completed several contracts for services for its other public programs.

RESPONSE FROM DDTP TO DRAFT AUDIT

The Bureau provided a copy of the draft audit to the DDTP, which has prepared a response and forwarded that response to the Commission. We have reviewed the DDTP's response, and append it to this letter. Like the Commission, the DDTP indicates that the program will institute or has already instituted changes in policy addressing the concerns raised by the audit. At the same time, the Commission must clarify a few points included in the DDTP's response.

The DDTP mentions at least twice that the program received "no surcharge revenue for 8 months in 2001". (DDTP Response, p. 3.) This is true, but the DDTP nevertheless had access to budgeted funds. The surcharge was statutorily authorized and the relevant statute contained a sunset provision, effective December 31, 2000. A bill enacted by the Legislature to extend the sunset date was vetoed by the Governor because of other provisions, and as a consequence, the Commission had to instruct all telephone utilities not to collect the surcharge until statutory authorization was restored, which occurred in September 2001. In the meantime, the program operated on reserves from the prior budget year and a \$15 million loan, approved by the legislature, from the California High-Cost Fund-B. Because of the loss of authority to assess the surcharge, the Commission delayed approval of a final DDTP budget pending signing of the new law.

The DDTP also ascribes in part to "changes in lease review and approval procedures required by the CPUC", its inability to "restore the level of service to consumers statewide that was previously in place with the local telephone companies". (DDTP Response, p. 3.) It is true that the Commission adopted new lease review standards that we did in an attempt to have the DDTP comply with Department of General Services contract rules as part of the anticipated transition of DEAF Trust Funds into the state treasury.

In discussing its internal control procedures pertaining to carrier surcharge remittances, the DDTP also mentions a November 1998 letter submitted to the Commission's Telecommunications Division seeking guidance on how to treat such remittances. (DDTP Response, p. 4.) Our best collective recollection is that Telecommunications Division staff responded to the DDTP's letter verbally, instructing the program to work with the Bank of America to resolve issues of carrier payment, and the DDTP acknowledges in its letter that it did just that. As we note in our response above, the Commission is implementing a number of changes to the carrier payment review and enforcement procedures that will solve concerns raised by the audit.

Finally, the DDTP sets forth a chart showing the disparity between the amount of revenue derived from the surcharge and the authorized program expense level for the period 1997 through 2001. (DDTP Response, p. 6.) The DDTP has correctly noted that its authorized expense level is consistently less than the amount of surcharge revenue collected. This is so because the Commission annually adjusts the surcharge level, and in that process, takes into consideration any remaining balance from the previous year. For example, a \$20 million overcollection in one year would result in a surcharge level reduction for the next year roughly equal to that amount.

Thank you again for the opportunity to respond in writing to the audit draft report.

Sincerely,

(Signed by: Wesley M. Franklin)

Wesley M. Franklin
Executive Director

Attachment

ATTACHMENT

July 2, 2002

Elaine M. Howle
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA. 95814

Dear Ms. Howle:

Thank you for the opportunity to respond to your report, "Deaf and Disabled Telecommunications Program: Insufficient Monitoring of Surcharge Revenues Combined With Imprudent Use of Public Funds Leave Less Money Available for Program Services." We recognize the extensive time and effort expended by the Bureau of State Audits (BSA) in developing this report. Through the DDTP's contact with your audit team over the course of the audit, we are aware that you assigned up to four individuals to work on this report over the course of over 150 days, at an originally-estimated cost to the State of \$110,600. We appreciate that the Joint Legislative Audit Committee sees the Deaf and Disabled Telecommunications Program as a critical enough program to warrant this extensive review. The majority of the recommendations contained in the audit report pertaining to the DDTP have already been implemented before this report was received, and the remainder are in the process of being addressed.

A major premise of your report is that "imprudent use" of public funds has made less money available for the vital services provided by the Deaf and Disabled Telecommunications Program (DDTP). In this response, we will point out that your report identifies \$24,574 of expenses incurred by the DDTP, and paid by ratepayers, over a four-year period of time, which you deemed to be "imprudent," based primarily on the fact that some of these types of expenses are "typically not seen in the public sector." During that same period of time, the DDTP's authorized expense budgets totaled \$208 million. The amount of "imprudent" expenditures identified in your report equates to .012% of the DDTP's total authorized expenditures for the period studied. Additionally, we point out that none of these "imprudent" expenditures, or any other DDTP expenditures, were deemed unlawful.

Services Provided to the Public

The DDTP provides specialized telecommunications equipment and services to deaf and disabled consumers in California to enable them to use their basic telephone service. Through the DDTP, equipment is provided to consumers who have impairments of hearing, vision, mobility, speech, and cognition. Our equipment distribution program operates under the name of the California Telephone Access Program (CTAP). Our centralized customer contact center receives between 17,000 and 18,000 calls per month from consumers statewide who wish to learn more about the equipment and services offered through our program or to request equipment. As a result of these contacts, our centralized distribution center ships between 6,000 and 8,000 units of telecommunications equipment each month to people who need this specialized equipment to be able to use their telephone service. The specialized equipment includes amplified phones, cordless phones, speakerphones, large button phones, artificial larynxes, TTYs and Braille TTYs. An average of 1,300 customers are served each month

at our service centers, located statewide, and by our Field Advisors, who visit consumers in their homes to help set up and train consumers on the use of their equipment. Each month, consumers place about 600,000 calls through the California Relay Service and Speech-to-Speech Service. All of this monthly activity is generated primarily by our Outreach Specialists, who reach 9,000 to 11,000 people per month through presentations to consumer, educational, business and civic groups, exhibits and booths, and trainings and meetings with consumer organizations.

This broad statewide program is recognized nationally for its extensive network of services and equipment provided to consumers and its practice of active consumer involvement in all policies and programs. Former FCC Chairman William E. Kennard called the DDTP “a model for the nation.” No other state offers the range of specialized equipment available here in California nor utilizes the expertise and experience of three consumer-controlled advisory committees, as we do here in California, to guide its comparable program.

Consumers as well continually compliment the DDTP and our highly skilled and specialized staff for the improvement our equipment and services can make in their daily lives. Below are some comments we have received from consumers who utilize equipment or services of the DDTP.

“Thank you for such a fine program and for the smooth transition to an updated phone. My experience at the CTAP Services Center rates an A+.”

“(Your employee) is most courteous and explained every detail in language a 95-year-old can understand. The phone is wonderful and once again I hear clearly. The first time the phone rang, I almost jumped out of my chair! I am most grateful and extend my heartfelt thanks to the CTAP Service Center.”

“First, I would like to thank you for the phone equipment. I am completely delighted and grateful for the use of a tool that helps me in my life, in making it more tolerable. Second, I would like you to know how very compassionate and comforting, as well as enlightening, (your employee) was. His complete explanation and demonstration of the use of my new phone was perfect. How nice for me to have had someone with understanding and sensitivity to my situation. Sensitivity is a rare commodity these days, and I really appreciate it.”

“I was so impressed by the immediate and cordial attention my father and I received. My father was truly happy that his hearing problem was totally addressed and explained. All features of the telephones were explained to him very respectfully. He is so happy about the knowledge and attention he was given. I also have to thank the service representative who made my dad happy. This will have a major impact on his quality of life.”

Program Administration

The audit report notes that from the program’s inception in 1981 until the late 1990s, various local telephone companies provided the bulk of the mandated services on its behalf, including equipment procurement, distribution, and outreach. In 1998, however, the CPUC directed the DDTP to take over operational responsibility for key program services from the telephone companies. The audit report further states that this transition was completed in 2000, with the DDTP administering contracts for a centralized call center and a central equipment distribution

center. The DDTP points out that this transition from local telephone company operations to similar DDTP operations will not be fully complete until August of 2002, when the DDTP opens its 6th Service Center, replacing all six of the centers previously operated by the local telephone companies. Due to a combination of factors including no surcharge revenue for 8 months in 2001, no approved operating budget for 9 months in 2001, and changes in lease review and approval procedures required by the CPUC, the DDTP has not been able to restore the level of service to consumers statewide that was previously in place with the local telephone companies. We are pleased to now be able to offer this statewide presence to consumers.

Surcharge Remittances

Surcharge revenues are remitted directly by the carriers to the Bank of America. After the bank processes and reports these revenues, the DDTP begins its accounting process and analysis. The BSA audit team conducted a fairly extensive review of the surcharge remittance process required by the CPUC of all certificated telecommunications carriers in California. These surcharge revenues fund the DDTP's equipment and services to consumers. The DDTP agrees with the BSA that this surcharge remittance process needs to be clearly defined for carriers and consistently enforced to ensure that not only the DDTP, but all of the public purpose programs benefiting from these revenues receive the amounts authorized by law.

One issue raised in the audit report concerns the number of carriers that presently do not remit surcharge revenues to the DDTP or remit them late. BSA states that the CPUC's list of active carriers totals 1,483, but only 469 of these carriers submitted a payment for at least one reporting period covering either 2000 or 2001. The DDTP questions whether all 1,483 of these carriers are truly "active." From our experience in working with this list, we have found duplications on this list in cases where several companies have merged, but are all still on the list as individual entities. Also, we have found companies on this list who have gone out of business. BSA states that it identified two groups of 30 carriers each on this list and conducted a check to determine whether the companies were actually in business during the periods they did not remit surcharge revenues. The BSA's check found that 20% to 23% of the companies were not certified during the applicable periods, therefore no surcharge revenue was owed. We expect that similar circumstances apply to some of the other "active" carriers on the CPUC's list.

BSA also conducted a check of the largest carriers in California and determined that these carriers generally remit the required surcharge revenue accurately and on time. The revenue from these largest carriers amounts to almost 90% of the total remitted. This finding conforms to the DDTP's experience in tracking surcharge revenue. The DDTP's external financial auditors conduct an audit of remitted revenues annually, and their findings indicate that 90% to 95% of the total revenue is received from the largest 30 carriers. The DDTP currently prepares a monthly report of surcharge payments received by carriers, based on data we receive from the Bank of America. We are able to match the surcharge revenue reported by the carrier (per the transmittal form copy we receive from Bank of America) to the surcharge revenue reported on our bank statement. We are also able to note carriers not remitting any revenue in a particular month. Going forward, the DDTP will send a monthly report to the CPUC, indicating which carriers did not remit revenue in the prior month. We will not be able to determine, however, if any of these carriers have gone out of business or lost their certification, if that information is not updated on the CPUC's carrier list, therefore we will rely on the CPUC to make that determination.

The BSA audit report correctly states that the DDTP's internal control procedures require us to notify the CPUC when carriers do not remit within a specified time. We can do this. The DDTP cannot, however, serve as an enforcer of the carriers' mandated requirements, because this is clearly not within the scope of the program's administrative committee. The Charter of the Deaf and Disabled Telecommunications Program Administrative Committee (DDTPAC) states: The DDTPAC "shall not have the authority to direct the utilities to take or to refrain from taking any action in connection with the programs. The members of the Committee in the performance of their duties and in the actions taken by the committee shall at all times be subject to the direction, control, and approval of the Commission."

In pursuit of direction from the CPUC regarding the DDTP's specific responsibilities for the tracking and reconciling of surcharge remittances, the DDTP has sought clarification from the CPUC on this issue. Below is an excerpt from a letter sent from the DDTP to the CPUC's Telecommunications Division in November of 1998, during the time the CPUC was instituting its new electronic filing system with the carriers for surcharge revenues.

"Several questions were raised at the meeting (of October 6, 1998) about the DDTP's ongoing responsibility to track and reconcile surcharge remittances under this new system and process (the electronic filing system). In the past, copies of surcharge transmittal forms were sent to the DDTP office (directly by the carriers). The DDTP compared the amounts reported on the transmittal forms to the amounts actually remitted by the carriers, as documented in our bank statement, and attempted to reconcile any differences. Occasionally carriers report one amount and remit a different amount. The reconciliation process is the only way that such inconsistencies can be discovered.

Since the DDTP is no longer receiving copies of the transmittal forms directly from the carriers, this reconciliation process is now complicated. As a consequence, the DDTP would like clarification on its responsibilities for tracking and reconciling surcharge information under this new system. Does the CPUC expect the DDTP to reconcile surcharge transmittals with surcharge remittances? Does the CPUC expect the DDTP to contact carriers to attempt to correct problems when discrepancies are found? Is it the DDTP's responsibility to inform carriers when discrepancies are found? Is it the DDTP's responsibility to reconcile adjustments reported on the transmittal form by the carriers? Since the electronic form does not require carriers to explain any adjustments made, is it the DDTP's responsibility to determine if adjustments are remittances for prior periods, for changes in the surcharge rate, or adjustments for some other factor? Is it the DDTP's responsibility to contact carriers who have missed months for remittances or missed transmittals?

I know these questions seem numerous, but the DDTP must clarify its responsibilities with regard to the collection and reporting of surcharge revenues."

In the absence of any written response from the CPUC to these questions, the DDTP worked with Bank of America to receive copies of the transmittal forms which are sent by the carriers to the bank. In the past, we received these forms monthly, but we now receive them throughout the month in batches, making the revenue tracking much easier.

The BSA audit report states that "large amounts of revenue in the form of late-payment penalties go uncollected, and the DDTP has missed out on thousands of dollars of revenue that could be used to provide services to the deaf and disabled communities." This statement

infers that if the program had access to greater revenue, then as a consequence, more equipment and services could be provided to the community. This is not necessarily a logical consequence. For the past five years, the DDTP has had access to millions of dollars more in surcharge revenue than the program has been authorized to use. Even in years when the DDTP's unencumbered fund balance from the prior year combined with surcharge revenues for the current year was adequate to fund broader equipment distribution and more extensive outreach, the DDTP's requested expense level was reduced by the CPUC. The following chart illustrates this fact.

	<u>Available Revenue</u>	<u>DDTP Requested Expense Level</u>	<u>CPUC Approved Expense Level</u>
2001	\$53.1 M*	\$69.5 M	\$49.7 M
2000	\$70.9 M	\$67.0 M	\$57.4 M
1999	\$69.3 M	\$56.9 M	\$52.2 M
1998	\$77.3 M	\$50.8 M	\$48.7 M
1997	\$74.5 M	\$37.9 M	\$37.6 M

(*Throughout most of 2001, the DDTP had no surcharge revenue due to the expiration of the surcharge, and the program ultimately received a \$15 M loan from the CPUC to cover its expenses during the period in which no surcharge revenues were received. Once the surcharge was restored, the DDTP began receiving revenues for its operating expenses, and the loan was paid back several months earlier than expected.)

Program Expenses

Committee Meeting Expenses

The BSA audit report includes two examples of instances during which the DDTP held committee meetings at hotels and paid "excessive" amounts for meals for committee members and staff attending the meetings. The report states that one meeting lunch expense amounted to \$32 per person, and another meeting lunch expense amounted to \$26 per person. The report does not indicate that these amounts include not only the food, but also the 19% service charge from the hotel, the 8.25% tax, and in one case a \$50 labor fee charged by the hotel for the set-up of the room. These charges are not "excessive" compared to similar catered functions at hotels, including functions held by other State agencies.

A DDTP representative recently attended a meeting of the California Governor's Committee for Employment of Disabled Persons held at a hotel in downtown Sacramento. The DDTP representative was invited to give a presentation on some of the DDTP's services. At this meeting, the Governor's Committee served continental breakfast and a catered luncheon. Although the DDTP does not know exactly the price of the food served at this meeting, the DDTP does know the range of prices charged by this particular hotel, because the DDTP has held meetings at the same facility. The Catering Department menu for this hotel lists continental breakfast, ranging from \$11.00 to \$15.00. The menu also lists catered lunches ranging from \$18.00 to \$22.00. These prices are higher than the State authorized limit of \$6.00 for breakfast and \$10.00 for lunch. Obviously the California Governor's Committee on the Employment of Disabled Persons identified a need to hold its meeting at a hotel, for access, capacity, and other accommodation reasons, and an exception was made to allow for the meeting participants to eat the meals provided by the hotel.

The DDTP has identified similar needs and reasons to hold meetings at hotels. As the DDTP reported to BSA, because all DDTP committee meetings are open to the public, we must locate facilities which are large enough to accommodate the number of public members who may attend plus committee and staff members who need to attend and which are convenient and easily accessible to the public. This requirement rules out most offices where committee members work, which are not large enough or are security buildings not easily accessible to the public. The DDTP must also locate meeting facilities which are fully ADA compliant in terms of physical accessibility to accommodate committee members, staff, and members of the public with disabilities.

The DDTP includes funds in its proposed budget every year for its committee meeting expenses, including meeting facilities and meeting meals, and it has never exceeded its authorized budget for committee expenses.

Employee Salaries

As part of its audit process, BSA reviewed salary ranges for 12 DDTP positions. These ranges are reported in Figure 3 of the report. The ranges indicated in Figure 3 for DDTP salaries include vertical salary relationship differentials and market differentials which may be applied in necessary situations, but are not included in the base salary range. Thus, for 5 of the positions included in the analysis, the DDTP's base salary range is lower than indicated on the BSA figure.

The BSA report correctly states that the DDTP's salary schedule is based on information provided in a compensation study performed by outside consultants in June 2000. This comprehensive compensation study was performed as ordered by the CPUC in Resolution T-16379, which authorized the DDTP's 2000 Budget. The compensation study was to develop a salary schedule which could be used as the DDTP brought on new employees in its transition of program operations from the telephone companies to the DDTP itself. Some language contained in this resolution provides important background information regarding the CPUC's plans for setting DDTP salary levels so as to attract experienced individuals who were at that time performing this same work within the local telephone companies. The following is an excerpt from that Resolution.

“At this point it is unclear how many utility employees would be interested in coming to the DDTPTAS. (Deaf and Disabled Telecommunications Program Trust Administration Staff). The DDTPTAS notes that many of these employees who have a great deal of seniority may have salary expectations exceeding the levels proposed by the DDTPTAS for this program. We believe that the unique interpersonal skills needed to do this type of work appear to be ideally learned by new staff through the tradition of observing and working with senior staff. We hope that the DDTPAC will modify its pay schedules to attract these workers.

We are not adopting a structure and salary schedule in this resolution, but instead set the overall level of wage compensation in the budget resolution. We have reviewed the DDTPTAS proposed salary schedules and concur with the DDTPAC that they are reasonable.

We are, however, requiring the DDTPTAS to undertake a compensation study, we are concerned by the low salary levels in place or projected for proposed supervisors of DDTP programs with the larger number of staff.”

The CPUC had communicated to the DDTP that it hoped the DDTP could set its salary levels to attract employees of the local telephone companies who were already performing this work at that time. Since 1981, the equipment and services of the DDTP had been provided by the local telephone companies, and the people delivering those services were employees of those companies. These employees were receiving compensation packages including salaries, bonuses, health benefits, retirement benefits, profit-sharing plans, savings plans, stock options and severance packages consistent with these companies’ internal policies. The DDTP was now tasked with the responsibility of designing its compensation package to attract these employees.

For this reason, the DDTP included some salary differentials in its salary schedule, which could be implemented if necessary to attract experienced employees. One salary differential incorporated a higher salary range for positions in which compensation offered outside of typical State salary schedules is extremely competitive due to the nature of the market or the position. This differential can be applied to IT positions, such as the System Administrator and to Accounting positions. Another salary differential incorporated a slightly higher salary range to implement a vertical salary differential. This differential allows supervisors and managers to earn at least 10% more than their subordinates, in line with the State’s similar policy for managers and supervisors. This differential was applied to some DDTP positions in which highly experienced individuals were hired from the local telephone companies into positions within DDTP departments. The salaries of the supervisors and managers within the department were set to maintain this vertical salary differential. These differentials are incorporated in the DDTP’s employee evaluation and compensation process and are approved by the DDTPAC. The DDTP has budgeted for salaries using its salary schedule, including the differentials, and has never exceeded its authorized budget.

Through its statements in the budget resolution, the CPUC has recognized that many of the DDTP positions differ significantly from those in State service, and the Legislature has recognized this fact as well. AB 1734, signed by the Governor on June 20, 2002, states, “The telecommunications services and equipment provided to deaf, disabled, and hearing-impaired individuals and their families, as specified in Sections 2881, 2881.1, and 2881.2 (the sections of the Public Utilities Code pertaining to the DDTP), are of such a highly specialized and technical nature that the necessary expert knowledge, ability, and experience are not available within the current state civil service system.” Accordingly, AB 1734 authorizes the CPUC to enter into contracts for the provision of these telecommunications services and equipment, rather than to provide this program through State civil service. Clearly this recognition of the significant difference between skills and experience required by DDTP employees and that required by civil service employees warrants appropriate compensation differentials. A strict comparison of DDTP positions and salaries to State positions and salaries is not valid.

Employee Benefits

The BSA audit report also comments on benefits paid to DDTP employees and asserts, “Some of the benefits currently received by DDTP employees are at least equal to or better than those received by comparable state employees. Specifically, health and life insurance

benefits are generous compared with employees of the State.” The audit report comments on the current cost of health benefits paid by the DDTP as compared to those paid by the State for civil service employees, but does not compare the lifetime cost of such benefits. The DDTP pays an average of \$350 per month per employee for health benefits. Since these benefits cease when an employee leaves the DDTP, the average cost to the DDTP over the life of the employee is \$42,000, using an example of an employee who is employed by the DDTP for 10 years. The audit report states that the DDTP’s monthly premium is higher than that paid by the State for civil service employees. If we assume the State’s monthly premium to be \$250 (as an estimate) for the same employee, with 10 years tenure with the State, and collecting retiree health benefits for an additional 15 years, as an example, the total cost to the State over the life of that same employee would be \$75,000. Clearly the additional benefit to the employee and the additional cost to the State of providing retiree health benefits skews this entire comparison and clouds the assertion that the DDTP’s health benefits are “generous compared with employees of the State.”

The BSA audit report also comments on the DDTP’s “generous life insurance coverage for all of its employees.” As a definition of “generous,” BSA notes that the death benefit paid by the DDTP’s life insurance coverage could range from \$48,000 to \$206,000, depending on the employee. This type of a death benefit may appear “generous” when compared to State-paid life insurance coverage for State employees, but some government employees have access to much higher coverage. President Bush recently signed a bill allowing a \$250,000 federal death benefit to be paid to domestic partners of public safety officers’ survivors. This benefit has previously been available to spouses, children and parents.

The BSA audit report did not comment on the cost of the DDTP’s life insurance coverage, while the cost of the coverage is probably more important than the size of the death benefit. The DDTP’s coverage costs less than 1% of the employee’s salary monthly to maintain.

The BSA audit report also comments on the use of leased vehicles by some DDTP employees. The CPUC indicated in Resolution T-16379 that it felt using vehicles leased by the program, the practice that was previously in place with the local telephone companies, may be more cost effective than reimbursing employees for mileage accrued on their own vehicles. The BSA auditors examined mileage driven during a one-month period of time by one DDTP employee and found that 245 miles were driven over the amount required for that employee to travel from home or the DDTP Service Center to the scheduled customer sites for that month. The report fails to note that the employee also attended a meeting in Oakland that month (a round trip of 190 miles) and made stops on occasion at the Service Center during the day (in between customer visits) to pick up additional equipment. This is mileage that would not be evident on the employee’s customer visit log, which is the document reviewed by the auditors.

DDTP Contracts

The BSA auditors reviewed seven DDTP contracts as part of their audit process and found that all contracts comply with applicable provisions of the Public Contract Code. The audit found no inappropriate decisions made in “closed door” sessions without public review, as was claimed by some members of the Legislature. The audit also found no conflict of interest between a DDTP Manager and a program vendor, as was also suggested by the same legislators. The report states that three of the seven contracts reviewed contain provisions for the DDTP to collect monetary penalties from the contractors for noncompliance with certain service standards, but the other four do not. For two of these four contracts, the report also correctly

notes that the DDTP has now instituted a Service Level Agreement with the vendors, which does detail performance standards and associated monetary penalties for non-compliance. The other two of the four contracts noted in the report contain other methods for the DDTP to save on contract expenses in the event of non-compliance. One of these contracts is a purchase contract, for the purchase of finished goods in the form of telephone equipment. With this contract, the DDTP takes possession of the equipment before any invoices are paid. If any of the equipment is received by the DDTP in substandard condition or is not the equipment ordered, the DDTP does not pay the invoice. Damaged or wrong equipment is returned to the vendor for full replacement, and once the corrected equipment is received, the invoice is paid. Therefore, the DDTP is not at risk of paying for non-performance.

The other contract examined by the auditors is a professional services contract for consulting services. With this contract, 10% of each invoice is withheld until the project is completed. Also, the consultants invoice the DDTP for hours worked, upon completion of the work. If the DDTP determines that the number of hours invoiced were not actually worked or the work required for the project was not performed, payment of the invoice can be withheld and the 10% amounts withheld from each prior invoice can be retained. Here again, the DDTP is not at significant risk of paying for non-performance.

Audit Recommendations

The DDTP would like to comment on the specific recommendations contained in the audit report. The following recommendations for the DDTP pertain to the collection of surcharges.

- **Work with the CPUC to develop and maintain a reliable record of carriers that are providing services subject to the surcharge.**

The DDTP is anxious to work with the CPUC on this task. Since the CPUC maintains this list of carriers, the DDTP will share any information it receives with the CPUC regarding the status of any carriers on the list.

- **Track the payment history of each carrier and monitor these records to identify delinquent carriers.**

The DDTP is currently tracking the payment history of each carrier remitting revenues to the DEAF Trust Fund. BSA has been provided with a sample of this monthly report. The DDTP will notify the Telecommunications Division of the CPUC of any delinquencies it is able to determine. The DDTP will also request from the CPUC updated surcharge tracking and reporting instructions for the remaining 12 months that the DDTP is involved in this process.

- **Regularly notify delinquent carriers and the CPUC of all past due amounts.**

The DDTP will notify the CPUC monthly of any delinquencies it is able to determine and will follow the CPUC's instructions regarding providing notification to the carriers.

The following recommendations for the DDTP pertain to the prudent use of public funds in furtherance of the program's mission.

- **Adhere to its newly revised internal control procedures that define allowable expenses.**

The DDTP implemented a new policy specifically defining allowable and non-allowable expenses on May 10, 2002. The DDTP Executive Director has distributed this new policy to all DDTP supervisors and managers and has obtained the signatures of all of these individuals

indicating their understanding of and compliance with the policy. This policy has been implemented throughout the organization.

- **Follow its new procedure to report parking fringe benefits as taxable income on employees' W-2 forms.**

This procedure is in place now. The DDTP's payroll service reports the taxable amount of any parking fringe benefits on the monthly payroll stub of each employee affected and on the payroll reports received by the DDTP every two weeks.

- **Develop additional procedures to prevent personal use of cars among employees with DDTP-leased vehicles. For example, the DDTP should properly label all of its leased vehicles and require employees to maintain daily log records of miles drive. When personal use occurs, the DDTP should report it as a taxable fringe benefit to the proper taxation authorities.**

While BSA did not definitively determine any personal use of leased vehicles has taken place, the DDTP is in the process of implementing some policies to prevent or minimize any possible personal use. The DDTP has developed a mileage log to be utilized by each employee with access to a leased vehicle to record daily mileage driven. Mileage will be recorded for each leg of a trip or each stop in a day's itinerary. This mileage log will be compared to the employee's event sheet or work activity sheet to verify that the mileage was for work-related purposes. The DDTP also plans to install signage on its leased vehicles, indicating "For Official Use Only." The DDTP will follow IRS requirements regarding the reporting of any taxable fringe benefits, if any are determined.

- **Ensure that all future contracts have established performance standards as well as provisions to collect damages from non-performing contractors.**

The DDTP has included strict performance standards and extensive provisions for liquidated damages in its new CRS contracts currently under development. We will similarly include appropriate provisions in all other new contracts.

In closing, the DDTP appreciates the BSA's recommendations, as they will assist in the design of a new program. The DDTP will be totally re-defined after June 30, 2003. The Legislature has assigned total direct control of the surcharge and related revenue collection responsibilities to the CPUC. The remainder of the DDTP's operations will be performed through contracts with a qualified entity or entities.

The DDTP looks forward to the inclusion of this response in your final Audit Report.

Sincerely,

(Signed by: Shelley Bergum)

Shelley Bergum
DDTP Executive Director

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COMMENTS

California State Auditor's Comments on the Response From the Deaf and Disabled Telecommunications Program

To provide clarity and perspective, we are commenting on the Deaf and Disabled Telecommunications Program's (DDTP) response to our audit report. The numbers below correspond to the numbers we placed in the margin of the program's response.

- We already acknowledge on page 33 of the audit report that the expenditures we identified as imprudent were relatively insignificant when compared with the DDTP's annual budget. However, they are inappropriate nonetheless. We also stated that our review of expenditures was rather limited. For example, the \$7,380 of credit card purchases that we identified as not furthering the program's mission were found in a sample of purchases made over a seven-month period from July 2001 through January 2002. We believe it is very likely that similar purchases occurred in other periods. Moreover, the DDTP's claim that these and the other questionable expenditures we identified represented only "0.12% of the DDTP's total authorized expenditures for the period studied" is misleading. The budgets totaling \$208 million were for 1998 through 2001. None of our review encompassed 1998. Further, as with the credit card expenditures we tested, we reviewed only small samples of the other types of expenditures made during limited periods in 1999, 2000, and 2001.
- The lease review and approval procedures referred to by the DDTP were not part of our review. The California Public Utilities Commission (CPUC) addresses this issue in its response to the audit on page 74.
- As we acknowledge on page 18 of the audit report, it is possible that not all of the 1,483 carriers that the CPUC includes on its list of active carriers are currently providing intrastate services subject to the surcharge. We also state that the CPUC could provide no definitive reason for why 68 percent of these carriers did not remit for the past two years and that no one knows for sure what the reason is.

- If, as it claims, the DDTP can notify the CPUC when carriers do not remit within a specified time, it is unclear to us why the DDTP has not done so in the past. Also, we have not implied that the DDTP has the ability to enforce carrier compliance. As we clearly state on pages 21, 25, and 26 of the audit report, the CPUC has responsibility for enforcement of the program's requirements, including revenue collections.
- Refer to the CPUC's response to the audit on page 75 for its explanation of the events discussed here.
- We agree that the DDTP cannot necessarily spend all surcharge revenue received from carriers. Collecting all revenue due to the program has two possible outcomes. First, as the CPUC states in its audit response on page 75, it annually adjusts the surcharge level, taking into consideration any remaining DDTP fund balance from the previous year. Thus, if the DDTP collects more surcharge revenue than it is budgeted to spend in one year, consumers could pay lower taxes in future periods as a result of the CPUC decreasing the surcharge rate. However, if the DDTP or members of the affected community could make a convincing argument that program services should be expanded, it could only happen if funds were available. It is absolutely essential that the DDTP do everything it can to ensure the program is getting all of the revenue it is owed so that it can serve its clientele. It is the CPUC's responsibility to make sure that telephone customers are not paying more than they should.
- The DDTP's argument is irrelevant. Maximum per diem rates are meant to be sufficient enough to cover all taxes, fees, and tips.
- The DDTP's example of an event recently attended by one of its employees is irrelevant. First, the event was a conference co-sponsored by the Employment Development Department and a non-profit organization. It was targeted at business owners, people with disabilities, human resource professionals, youth service providers, and the general public. Criteria governing the cost of meals at state-sponsored conferences involving outside participants are completely different from the criteria that govern committee meetings. In addition, attendees at the conference paid a registration fee that covered lunch, a reception, and a continental breakfast. The DDTP told us that some members of the public attended the committee meetings we discuss in our report and that those individuals reimbursed

the DDTP for their meals. However, the DDTP did not provide us with evidence of these reimbursements, even though we asked for it.

- For our salary comparison, we used the salary schedule provided to us by the DDTP. From that schedule, we used salary ranges currently being used by the DDTP, regardless of whether they were the base salary ranges or not. We believe we have made appropriate comparisons.
- The salaries the DDTP refers to are those that the CPUC reviewed and declared as reasonable for 2000. Our salary comparison consisted of individual salary ranges for 2001, none of which the CPUC specifically approved.
- The DDTP's claim that a strict comparison of DDTP positions and salaries to state positions and salaries is not valid, is in itself, untrue. We acknowledge that many of the DDTP's employees have specialized skills, knowledge, and abilities necessary to provide services to the deaf and disabled communities. However, as stated on pages 13 and 46 of the audit report, these positions are primarily the customer advisors, field advisors, and out-reach specialists. Our salary comparison did not consist of these employees. Rather, we compared the salary ranges of DDTP staff that perform administrative functions to those of state employees, such as department directors, the system administrator, and accounting staff that perform similar administrative functions. Thus, the positions are clearly comparable and our analysis is completely valid.
- The DDTP's reasoning is flawed. There is absolutely no assurance that DDTP employees will remain employed for a certain number of years nor that state employees will remain with the State until they retire. Moreover, not all state employees who retire receive lifetime benefits. In addition, if a state employee retires and receives retirement health benefits, those benefits are paid for by the retirement system, not the State's General Fund. The retirement system receives its funds through both employer (the State) and employee contributions and the income the system makes through investment of members' accounts. To say that the State incurs the full cost of retirement health benefits is untrue.
- The DDTP's comparison to a federal death benefit is inappropriate. The DDTP does not employ public safety officers. As we state on page 38 of the report, although some state employees receive life insurance and have the potential to

receive additional coverage, it is at the employee's expense. The DDTP's employees pay nothing to obtain significantly higher death benefits than what state employees receive.

- Based on additional analysis, the DDTP pays significantly more for its employee's life insurance coverage than the State does for its employees. Specifically, we calculated the monthly life insurance premium of each DDTP employee and found that on average, the DDTP is paying \$43 per employee each month, ranging from \$24 to as high as \$84 for one employee. Conversely, the State pays between \$6 and \$12 per month for certain employees who receive life insurance benefits.
- The DDTP's claim that the employee made a 190-mile round trip to Oakland during the period we reviewed is inaccurate. The last mileage information we had from this employee was as of November 28, 2001, the last time the employee filled the car with gas that month. Thus, our analysis essentially ended on that date. The employee attended the meeting in Oakland on November 29-30, 2001, or just after the date our analysis ended. Our conclusion that 245 miles were driven over the amount required for that employee to travel from home or the DDTP service center to the scheduled customer sites for that month remains true.
- It is advantageous that the DDTP does not have to pay the invoice if the equipment is received in substandard condition. However, timing issues may arise where the equipment is needed right away. If the equipment ordered is wrong or damaged, the DDTP would have to wait for the equipment to be replaced, potentially resulting in consumers not receiving equipment as quickly as they should. For this reason, it remains prudent that the DDTP have a contractual provision that would allow it to collect monetary damages if the vendor fails to perform as required.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
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